

TOWN OF QUEENSTOWN
QUEENSTOWN, MARYLAND
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2013

TOWN OF QUEENSTOWN
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INDEPENDENT AUDITOR'S REPORT

To the Town 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, 2013, 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, 2013 and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Enterprise Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Members

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • PRIVATE COMPANIES PRACTICE SECTION
DELAWARE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

Other Matters

Required Supplementary 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Summarized Prior Year Information

Some information included in these financial statements was derived from audited financial statements for June 30, 2012 which we audited and reported on November 1, 2012. This prior period, summarized information is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 Funds (Schedules A and B) are presented for proposes 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 January 15, 2014, 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
January 15, 2014

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

This Discussion and Analysis is intended to be an easily readable analysis of the Town of Queenstown's financial activities based on currently 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, 2013

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by \$.46 million from 2012 to 2013. (See table below.) Governmental fund net position increased by 2%, which is the result of the Town being able to meet operational costs with current revenues. The business-type funds increased by 23% in large part due to the receipt of grant funding for the installation of residential water meters.

Town of Queenstown
Net Position
(in millions)

	Governmental		Business-Type		Total		Total Percentage Change
	2013	2012	2013	2012	2013	2012	
Current and Other Assets	.66	.66	.48	.26	1.14	.92	23.91
Non-Current Assets	.68	.59	(.61)	(.50)	.07	.09	(22.22)
Capital Assets	1.31	1.37	2.78	2.11	4.09	3.48	17.53
Total Assets	2.65	2.62	2.65	1.87	5.30	4.49	18.04
Current Liabilities	.07	.05	.04	.04	.11	.09	22.22
Long Term Debt	.22	.26	.44	.07	.66	.33	100.00
Total Liabilities	.29	.31	.48	.11	.77	.42	83.33
Net Position							
Capital Assets Net of Debt	1.07	1.10	2.33	2.04	3.40	3.14	8.28
Restricted	.04	.04	-	-	.04	.04	-
Unrestricted	1.25	1.17	(.16)	(.28)	1.09	.89	22.47
Total Net Position	2.36	2.31	2.17	1.76	4.53	4.07	11.30

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

The Town's total revenues increased by 43.33% to \$1.29 million (See table below). Revenue from business-type activities increased 144.83% to \$0.71 million, which is primarily due to the capital grant revenue for the water meter installations and connection fees for new customers. Governmental revenues decreased by 4.92% to \$.58 million, which is primarily due to a reduction in building permits and state operating grants.

The total cost of all programs and services decreased by 5.68%, to \$.83 million. Costs of business-type activities decreased by 6.25% to \$0.30 million. Costs of governmental activities decreased by 5.36% to \$.53 million.

Town of Queenstown
Change in Net Position
(in millions)

	Governmental		Business-Type		Total		Total Percentage
	2013	2012	2013	2012	2013	2012	Change
Program Revenue							
Fees, Fines, Services	.04	.05	.41	.29	.45	.34	32.35
Operating Grants	-	.03	-	-	-	.03	(100.00)
Capital Grants	-	-	.30	-	.30	-	100.00
General Revenue							
Taxes	.53	.52	-	-	.53	.52	1.92
Investment Income (loss)	.01	.01	-	-	.01	.01	-
Total Revenue	.58	.61	.71	.29	1.29	.90	43.33
Program Expenses							
General	.29	.32	-	-	.29	.32	(9.38)
Public Works	.19	.20	-	-	.19	.20	(5.00)
Parks and Recreation	.04	.03	-	-	.04	.04	-
Debt Service	.01	.01	-	-	.01	.01	-
Water and Sewer	-	-	.30	.32	.30	.32	(6.25)
Total Expenses	.53	.56	.30	.32	.83	.88	(5.68)
Change in Net Position	.05	.05	.41	(.03)	.46	.02	2200.00
Net Position Beginning	2.31	2.26	1.76	1.79	4.07	4.05	.49
Net Position Ending	2.36	2.31	2.17	1.76	4.53	4.07	11.30

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

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

General Fund revenues of \$582,946 were under the budget by \$14,636. This unfavorable variance was mainly attributed to lower than expected personal property and corporation taxes.

General Fund expenditures of \$494,466 were under budget by \$36,608. This favorable variance was mainly attributed to capital outlay, street repairs and legal fees coming in under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013 the Town had \$4.09 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	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	.08	.08	.06	.06	.14	.14
Buildings	1.04	1.09	-	-	1.04	1.09
Equipment	.04	.04	2.31	1.73	2.35	1.77
Construction in Progress	-	-	.41	.32	.41	.32
Improvements	.15	.16	-	-	.15	.16
Total Capital Assets	1.31	1.37	2.78	2.11	4.09	3.48

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

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Debt

At year-end, the Town had \$.68 million in debt outstanding versus \$.33 million last year, an increase of \$0.35 million.

Town of Queenstown
Debt
(in millions)

	Governmental		Business-Type		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Mortgage Municipal Building	.24	.26	-	-	.24	.26
Line of Credit	-	-	.14	.07	.14	.07
Water Meter Loan	-	-	.30	-	.30	-
Total	.24	.26	.44	.07	.68	.33

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

Economic Factors and 2013 Budget & Rates

Fiscal year (FY) 2013 saw many accomplishments, both major and minor that benefited our Town. The major accomplishments continue our focus on improving and maintaining our infrastructure and water/sewer capability.

The Town's Waste Water Treatment Plant (WWTP) has been at capacity for many years. County approval was received in FY 2012 to begin the planning and design phases of constructing a new WWTP. Phases 1 and 2 are fully funded by a USDA loan. Phase 1 has begun and will continue into FY 2014.

In a green initiative funded by the Maryland Department of the Environment (MDE) grant and loan, the installation of new water meters has been completed. The meters will allow the town to bill residences and commercial users for the water that they actually consume and, hopefully, encourage them to conserve more water. The State of Maryland has mandated that conservation efforts be established to protect the state's aquifers.

The State Highway Administration approved the funding of 1.2 million dollars to begin the Street Scape project on Del Rhodes Avenue in FY 2012. Construction is currently underway and is expected to be completed in FY 2014.

Community activities remain a strong part of our Town. The community yard sale is held every year and this year we added a bonfire. All fees and proceeds are donated to the Queenstown Volunteer Fire Department.

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

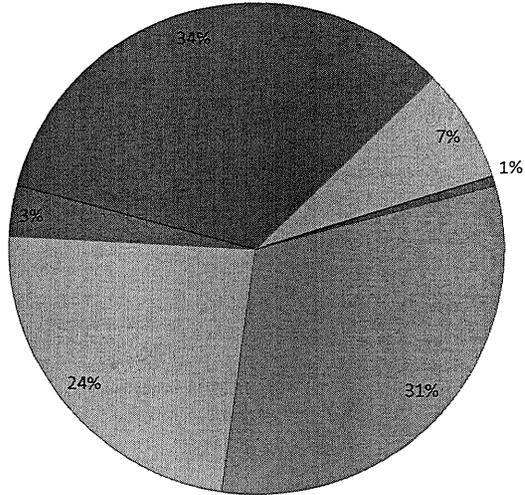
The economy of Maryland is suffering from the general downturn experienced throughout the U.S. economy. Therefore, Queenstown should anticipate continued reductions in State and County financial contributions to its annual revenue. Our community is based on working families who are often negatively impacted by the slowing economy. 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 balanced its prior year budget, 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.

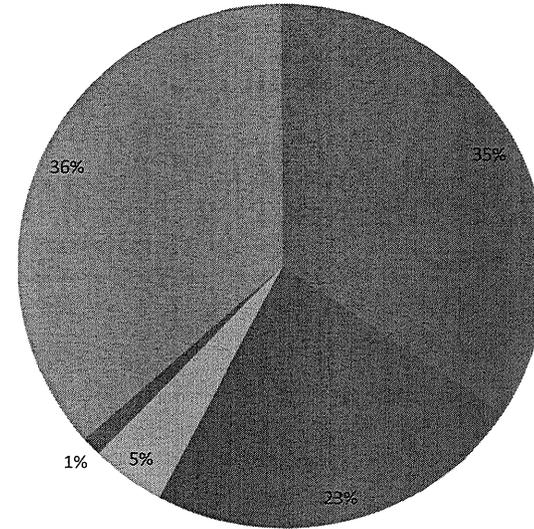
TOWN OF QUEENSTOWN
 MANAGEMENT DISCUSSION AND ANALYSIS
 TOTAL REVENUE AND EXPENSES
 GOVERNMENT-WIDE
 JUNE 30, 2013

TOTAL REVENUE



- Fees, Fines and Charges for Services
- Property Taxes, Penalties and Interest
- Local Income Tax
- Interest Income
- Water and Sewer
- Grants and Contributions

TOTAL EXPENSES



- General Government
- Public Works
- Parks and Recreation
- Debt Service
- Water and Sewer

TOWN OF QUEENSTOWN
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT A

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 105,587	\$ 269,278	\$ 374,865
Accounts Receivable	36,654	102,544	139,198
Investments	515,873	110,506	626,379
Internal Balances	608,832	(608,832)	-
Prepaid Pension Costs	73,038	-	73,038
Capital Assets:			
Land	82,600	57,962	140,562
Buildings	1,342,269	-	1,342,269
Equipment	219,108	4,167,041	4,386,149
Construction in Progress	-	413,757	413,757
Improvements	216,087	-	216,087
Vehicles	31,230	-	31,230
Accumulated Depreciation	<u>(582,726)</u>	<u>(1,863,056)</u>	<u>(2,445,782)</u>
Total Assets	<u>\$ 2,648,552</u>	<u>\$ 2,649,200</u>	<u>\$ 5,297,752</u>
LIABILITIES			
Accounts Payable	47,934	36,222	84,156
Non-Current Liabilities:			
Due within one year	23,029	158,626	181,655
Due in more than one year	<u>215,948</u>	<u>286,834</u>	<u>502,782</u>
Total Liabilities	<u>286,911</u>	<u>481,682</u>	<u>768,593</u>
NET POSITION (DEFICIT)			
Invested in Capital Assets, Net of Related Debt	1,069,591	2,330,244	3,399,835
Restricted	37,691	-	37,691
Unrestricted	<u>1,254,359</u>	<u>(162,726)</u>	<u>1,091,633</u>
Total Net Position (Deficit)	<u>\$ 2,361,641</u>	<u>\$ 2,167,518</u>	<u>\$ 4,529,159</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**TOWN OF QUEENSTOWN
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

EXHIBIT B

<u>Program Activities</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities</u>							
General Government	\$ 286,858	\$ 43,345	\$ 1,000	\$ -	\$ (242,513)	\$ -	\$ (242,513)
Public Works	193,261	-	-	-	(193,261)	-	(193,261)
Parks and Recreation	37,351	-	-	-	(37,351)	-	(37,351)
Debt Service	10,026	-	-	-	(10,026)	-	(10,026)
<u>Total Governmental Activities</u>	527,496	43,345	1,000	-	(483,151)	-	(483,151)
 <u>Business-Type Activities</u>							
Water and Sewer	302,339	405,634	-	302,940	-	406,235	406,235
<u>Total Government</u>	<u>\$ 829,835</u>	<u>\$ 448,979</u>	<u>\$ 1,000</u>	<u>\$ 302,940</u>	<u>(483,151)</u>	<u>406,235</u>	<u>(76,916)</u>
General Revenues:							
Taxes:							
Property Taxes, Penalties and Interest					432,906	-	432,906
Local Income Tax					95,471	-	95,471
Highway Use Tax					5,903	-	5,903
Interest Income					4,322	4,087	8,409
Total General Revenues					<u>538,602</u>	<u>4,087</u>	<u>542,689</u>
Change in Net Position					55,451	410,322	465,773
Net Position-Beginning					<u>2,306,190</u>	<u>1,757,196</u>	<u>4,063,386</u>
Net Position-Ending					<u>\$ 2,361,641</u>	<u>\$ 2,167,518</u>	<u>\$ 4,529,159</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**TOWN OF QUEENSTOWN
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013**

EXHIBIT C

**General
Fund**

ASSETS

Current Assets:

Cash	\$ 105,587
Accounts Receivable	36,654
Investments	515,873
Total Current Assets	658,114

Non-Current Assets:

Internal Balances	608,832
Prepaid Pension Costs	73,038
Total Non-Current Assets	681,870

Total Assets	\$ 1,339,984
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LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 47,934
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Fund Balance:

Nonspendable	681,870
Assigned	37,465
Unassigned	572,715
	1,292,050

Total Fund Balance	1,292,050
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Total Liabilities and Fund Balance	\$ 1,339,984
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Amounts Reported For Governmental Activities in The Statement of Net Position Are Different Because:

Total Fund Balance	\$ 1,292,050
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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.	1,308,568
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(238,977)
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Net Position of Governmental Activities	\$ 2,361,641
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TOWN OF QUEENSTOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT D

	General Fund
Revenues:	
Property Taxes	\$ 385,514
Intergovernmental	149,766
Licenses and Permits	34,686
Interest	4,321
Rents	6,120
Miscellaneous	2,539
Total Revenues	582,946
Expenditures:	
Current:	
General Government	264,475
Public Works	177,318
Parks and Recreation	19,046
Debt Service:	
Principal Retirement	23,601
Interest	10,026
Total Expenditures	494,466
Net Change in Fund Balance	88,480
Fund Balance at Beginning of Year	1,203,570
Fund Balance at End of Year	\$ 1,292,050

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, 2013

EXHIBIT E

Net Change in Fund Balance - Total Governmental Funds	\$ 88,480
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(56,630)
Some expenses in the Governmental funds require the use of current financial resources but are not expenses in the statement of activities:	
Principal Retirement	<u>23,601</u>
Change in Net Position of Governmental Activities	<u><u>\$ 55,451</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT F

	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/2012
Revenues:				
Property Taxes	\$ 405,025	\$ 385,514	\$ (19,511)	\$ 385,887
Intergovernmental	138,417	149,766	11,349	161,437
Licenses and Permits	35,150	34,686	(464)	49,829
Interest	10,100	4,321	(5,779)	6,944
Rents	6,120	6,120	-	6,035
Miscellaneous	2,770	2,539	(231)	2,876
Total Revenues	597,582	582,946	(14,636)	613,008
Expenditures:				
Current:				
General Government	232,707	264,475	(31,768)	297,599
Public Works	200,174	177,318	22,856	178,350
Parks and Recreation	24,460	19,046	5,414	13,617
Capital Outlay/Depreciation	55,921	-	55,921	4,325
Debt Service	17,812	33,627	(15,815)	34,338
Total Expenditures	531,074	494,466	36,608	528,229
Net Change in Fund Balance	66,508	88,480	21,972	84,779
Fund Balance at Beginning of Year	1,203,570	1,203,570	-	1,118,791
Fund Balance at End of Year	\$ 1,270,078	\$ 1,292,050	\$ 21,972	\$ 1,203,570

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**TOWN OF QUEENSTOWN
STATEMENT OF NET POSITION-ENTERPRISE FUND
JUNE 30, 2013**

EXHIBIT G

ASSETS

Current Assets:

Cash	\$ 269,278
Accounts Receivable	102,544
Investments	110,506
Total Current Assets	<u>482,328</u>

Capital Assets:

Land	57,962
Construction in Progress	413,757
Equipment	4,167,041
Accumulated Depreciation	<u>(1,863,056)</u>
Total Capital Assets	<u>2,775,704</u>

Total Assets	<u><u>\$ 3,258,032</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 36,222
Notes Payable - Current Portion	158,626
Total Current Liabilities	<u>194,848</u>

Non-Current Liabilities:

Long Term Debt - Net of Current Portion	286,834
Internal Balances	<u>608,832</u>
Total Non - Current Liabilities	<u>895,666</u>

Total Liabilities	<u>1,090,514</u>
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NET POSITION (DEFICIT)

Invested in Capital Assets, Net of Related Debt	2,330,244
Unrestricted	<u>(162,726)</u>
Total Net Position	<u>2,167,518</u>

Total Liabilities and Net Position (Deficit)	<u><u>\$ 3,258,032</u></u>
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN **EXHIBIT H**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL-ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Water and Sewer Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/12</u>
Operating Revenues:				
Charges for Services	\$ 216,352	\$ 207,120	\$ (9,232)	\$ 204,045
Connection Fees	-	134,934	134,934	28,045
Rents	62,396	63,446	1,050	60,940
Miscellaneous	400	134	(266)	478
Total Operating Revenues	<u>279,148</u>	<u>405,634</u>	<u>126,486</u>	<u>293,508</u>
Operating Expenses:				
Salaries	-	-	-	15,344
Office Supplies and Expense	1,000	250	750	452
Telephone	1,650	2,104	(454)	1,961
Auditing	5,000	7,400	(2,400)	17,200
Legal Fees	-	2,373	(2,373)	1,481
Data Processing/Accounting Fees	1,750	4,105	(2,355)	2,402
Utilities	28,000	31,863	(3,863)	30,118
Plant Repairs and Maintenance	45,000	33,405	11,595	31,255
Tower Repairs and Maintenance	17,500	15,003	2,497	15,003
Water and Sewer Lines R & M	30,000	13,249	16,751	39,226
Water/Sewer Operating Fees	58,189	65,616	(7,427)	51,285
Engineering Fees	30,000	1,545	28,455	1,050
Advertising	750	1,252	(502)	2,554
Insurance	6,000	4,855	1,145	5,656
Lab Fees	750	364	386	-
Chemicals	6,500	10,052	(3,552)	8,789
Sludge Disposal	20,000	35,799	(15,799)	27,503
Depreciation	70,436	73,054	(2,618)	72,816
Miscellaneous	500	50	450	2,066
Total Operating Expenses	<u>323,025</u>	<u>302,339</u>	<u>20,686</u>	<u>326,161</u>
Net Operating Income (Loss)	(43,877)	103,295	147,172	(32,653)
Non - Operating Revenue:				
Water Meter Grant Revenue	-	302,940	302,940	-
Interest	2,300	4,087	1,787	1,292
Change in Net Position	(41,577)	410,322	451,899	(31,361)
Net Position at Beginning of Year	<u>1,757,196</u>	<u>1,757,196</u>	<u>-</u>	<u>1,788,557</u>
Net Position at End of Year	<u>\$ 1,715,619</u>	<u>\$ 2,167,518</u>	<u>\$ 451,899</u>	<u>\$ 1,757,196</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, 2013**

EXHIBIT I

	Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 252,432
Rents	63,446
Miscellaneous	134
Cash Payments to Suppliers for Goods and Services	(231,337)
Net Cash from Operating Activities	84,675
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Debt	376,115
Water Meter Grant Revenue	302,940
Purchase of Capital Assets	(669,231)
Net Cash from Capital and Related Financing Activities	9,824
Cash Flows from Investing Activities:	
Interest Income	4,087
Net Change in Cash	98,586
Cash - Beginning of year	170,692
Cash - End of year	\$ 269,278
Reconciliation of Net Operating Income (Loss) to Net Cash from Operating Activities:	
Net Operating Income (Loss)	\$ 103,295
Adjustments to Reconcile Income (Loss) to Net Cash from Operating Activities:	
Depreciation	73,054
Change in Accounts Receivable	(89,622)
Change in Accounts Payable	(2,052)
Net Cash from Operating Activities	\$ 84,675

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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, 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 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

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

- 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.

Enterprise Fund

The Enterprise 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 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 prior to May 30. 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

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

modifications are required in estimated revenues and appropriations. No amendments were adopted in the current year.

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 of uncollectibility.

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.

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.

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.

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

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

K. Net Position

Net Position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net position invested in capital assets, net of related debt 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.

L. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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:

- **Nonspendable:** 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

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

- 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.

NOTE 2 - CASH AND INVESTMENTS:

The balance of cash and investments is categorized as follows:

General Fund Checking	\$	114,732
General Fund Petty Cash		100
General Fund CDs		478,181
Parks and Recreation CD		30,389
Courthouse CD		7,303
Enterprise Fund Checking		269,337
Enterprise CDs		<u>110,506</u>
 <u>TOTAL CASH AND INVESTMENTS – PER BANK STATEMENTS</u>	 \$	 <u><u>1,010,548</u></u>

The balance of cash and investments is categorized as follows:

Amount insured by the FDIC	\$	<u>500,000</u>
Collateralized by the financial institutions trust department with securities not in the Town’s name		<u>510,448</u>
Uncollateralized		<u>100</u>

The certificates of deposit are stated at fair market value based on the balances confirmed by the bank.

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 still in the design phase and will take several years to complete. The project will be funded with a combination of federal and state loans and grants. Included in construction in progress is capitalized interest of \$2,313.

**TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

**EXHIBIT J
PAGE 6**

NOTE 4 - CAPITAL ASSETS:

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

	<u>ASSETS</u>			BALANCE JUNE 30, 2013
	BALANCE JULY 1, 2012	<u>ACQUISITIONS</u>	<u>RETIREMENTS</u>	
Land	\$ 82,600	\$ -	\$ -	\$ 82,600
Buildings	1,342,269	-	-	1,342,269
Equipment	219,108	-	-	219,108
Improvements	216,087	-	-	216,087
Vehicles	31,230	-	-	31,230
Water and Sewer	<u>3,899,790</u>	<u>738,970</u>	<u>-</u>	<u>4,638,760</u>
<u>TOTAL</u>	<u>\$ 5,791,084</u>	<u>\$ 738,970</u>	<u>\$ -</u>	<u>\$ 6,530,054</u>
		<u>ACCUMULATED DEPRECIATION</u>		
	BALANCE JULY 1, 2012	<u>DEPRECIATION</u>	<u>RETIREMENTS</u>	BALANCE JUNE 30, 2013
Land	\$ -	\$ -	\$ -	\$ -
Buildings	263,160	36,428	-	299,588
Equipment	174,623	9,731	-	184,354
Improvements	57,081	10,473	-	67,554
Vehicles	31,230	-	-	31,230
Water and Sewer	<u>1,790,002</u>	<u>73,054</u>	<u>-</u>	<u>1,863,056</u>
<u>TOTAL</u>	<u>\$ 2,316,096</u>	<u>\$ 129,686</u>	<u>\$ -</u>	<u>\$ 2,445,782</u>
<u>CAPITAL ASSETS</u>				<u>\$ 4,084,272</u>

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

Governmental Activities:

General Government	\$ 18,299
Parks and Recreation	19,968
Public Works	18,365
Enterprise Activity - Water and Sewer	73,054
Total Depreciation Expense	<u>\$ 129,686</u>

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.

**TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

**EXHIBIT J
PAGE 7**

NOTE 5 - ACCOUNTS PAYABLE (CONTINUED):

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 \$16,395.

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.	\$	238,977
Line of Credit - Water and Sewer - Queenstown Bank - The Town was approved for a \$300,000 unsecured line of credit, payable in one lump sum on February 15, 2014 with interest at 3.375%. The loan will be refinanced with loan proceeds received from the Maryland Department of the Environment (MDE) and/or USDA.		142,520
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 2/1/2032. Interest is payable August 1 st of each year. On February 1 st of each year a principal, interest and administrative fee payment of \$18,649 is due. The loan is collateralized by future enterprise fund revenue.		302,940
<u>Total</u>	\$	<u>684,437</u>

Transactions for the year are summarized as follows:

	Balance <u>July 1</u>	<u>Additions</u>	Payments or <u>Expenditures</u>	Balance <u>June 30</u>	Due within <u>One year</u>
<u>Governmental Type Activities:</u>					
Mortgage Payable	\$ 262,578	\$ -	\$ 23,601	\$ 238,977	\$ 23,029
<u>Business Type Activities:</u>					
Line of Credit	69,345	73,175	-	142,520	142,520
Water Meter Loan	-	302,940	-	302,940	16,106
<u>Total Debt</u>	\$ <u>331,923</u>	\$ <u>376,115</u>	\$ <u>23,601</u>	\$ <u>684,437</u>	\$ <u>181,655</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>
June 30, 2014	23,029	8,003	158,626	7,392
June 30, 2015	23,848	7,184	15,242	2,581
June 30, 2016	24,678	6,354	15,380	2,444
June 30, 2017	25,572	5,460	15,518	2,306
June 30, 2018	26,483	4,549	15,658	2,166
2019 - 2023	115,367	8,761	80,427	8,692
2024 - 2028	-	-	84,112	5,007
2029 - 2033	-	-	60,497	1,239
<u>Total</u>	\$ <u>238,977</u>	\$ <u>40,311</u>	\$ <u>445,460</u>	\$ <u>31,827</u>

NOTE 7 - 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 8 - PENSION PLAN:

Plan Description - The Town's employees participate in the State Retirement and Pension System of Maryland (SRPSM), a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. This is an agent multiple-employer pension plan. 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 SRPSM to the Board of Trustees of the SRPSM. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for the SRPSM. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, MD 21201, or via the internet at www.sra.state.md.us.

Funding Policy - Members are required to contribute 5% (7% in 2012) of the portion of their salary above the federal social security wage base for the year. The Town is required to contribute at an actuarially determined rate.

The contribution requirements of plan members and the Town are established and may be amended by the SRPSM Board of Trustees.

Annual Pension Cost - The Town's annual pension cost of \$24,164 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the aggregate entry age normal method. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases ranging from 3.5% to 8.5% per year, and (c) 3% simple per year cost-of-living adjustments. Both (a) and (b) are adjusted for inflation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments from year to year.

Also included in pension cost is the current year amortization of prepaid pension costs in the amount of \$73,038. The Commissioners elected to pay off their unfunded pension liability for past service costs in 2006, in the amount of \$166,946, which is being amortized over twenty five years.

NOTE 9 - 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, 2013, 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 \$30,388 for future, non-specific improvements.

NOTE 10 - CONCENTRATION - ECONOMIC DEPENDENCY:

The Town's largest taxpayer and utility customer is a factory outlet shopping center that is responsible for 25% of the Town's total revenue.

**TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

**EXHIBIT J
PAGE 9**

NOTE 11 - SUBSEQUENT EVENTS:

Subsequent event inquiries and testing were performed through the report date, January 25, 2014, which is the date the financial statements were available for issuance.

TOWN OF QUEENSTOWN
SUPPLEMENTAL INFORMATION
JUNE 30, 2013

TOWN OF QUEENSTOWN
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF REVENUE-BUDGET AND ACTUAL
 ALL FUND TYPES
 YEAR ENDED JUNE 30, 2013

SCHEDULE A

	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/12
<u>TAXES-LOCAL:</u>				
<u>Real and Personal Property:</u>				
Real Estate Taxes	\$ 281,225	\$ 277,970	\$ (3,255)	\$ 273,500
Interest on Delinquent Taxes	800	918	\$ 118	-
Personal Property and Corporation	123,000	106,626	(16,374)	112,387
<u>Total Real and Personal Property</u>	<u>405,025</u>	<u>385,514</u>	<u>(19,511)</u>	<u>385,887</u>
<u>Intergovernmental:</u>				
Real Property Tax Share - County	47,397	47,392	(5)	47,391
Local Income Tax	80,000	95,471	15,471	76,820
Highway Use Tax	5,900	5,903	3	9,607
SHA Right of Way Payment	2,250	-	(2,250)	-
State of MD Water Meter Grant	-	302,940	302,940	-
Water Way Improvement Grant	-	-	-	19,418
EECBG Grant	-	-	-	4,084
Dock Trash Grant	1,870	-	(1,870)	3,117
Critical Areas	1,000	1,000	-	1,000
<u>Total Intergovernmental</u>	<u>138,417</u>	<u>452,706</u>	<u>314,289</u>	<u>161,437</u>
<u>NET TAXES</u>	<u>543,442</u>	<u>838,220</u>	<u>294,778</u>	<u>547,324</u>
<u>LICENSES AND PERMITS:</u>				
Franchise	4,800	3,685	(1,115)	5,280
Building Permits	6,000	4,219	(1,781)	20,663
Other Licenses and Permits	750	-	(750)	1,089
Traders' Licenses	23,600	26,782	3,182	22,797
<u>TOTAL LICENSES AND PERMITS</u>	<u>35,150</u>	<u>34,686</u>	<u>(464)</u>	<u>49,829</u>
<u>CHARGES FOR SERVICES:</u>				
Water and Sewer	216,352	207,120	(9,232)	204,045
Connection Fees	-	134,934	134,934	28,045
<u>TOTAL CHARGES FOR SERVICES</u>	<u>216,352</u>	<u>342,054</u>	<u>125,702</u>	<u>232,090</u>
<u>MISCELLANEOUS REVENUE:</u>				
Interest	12,400	8,408	(3,992)	8,236
Rents	68,516	69,566	1,050	66,975
Bank Shares	370	371	1	371
Recreation	2,000	-	(2,000)	2,000
Maps, Books, Copies, Etc.	200	43	(157)	405
Miscellaneous	600	2,261	1,661	578
<u>TOTAL MISCELLANEOUS REVENUE</u>	<u>84,086</u>	<u>80,649</u>	<u>(3,437)</u>	<u>78,565</u>
<u>TOTAL REVENUE</u>	<u>\$ 879,030</u>	<u>\$ 1,295,609</u>	<u>\$ 416,579</u>	<u>\$ 907,808</u>

TOWN OF QUEENSTOWN
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
 ALL FUND TYPES
 YEAR ENDED JUNE 30, 2013

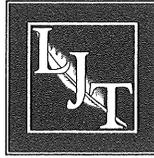
SCHEDULE B
 PAGE 1

	<u>Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 06/30/12</u>
<u>GOVERNMENTAL FUNDS</u>				
<u>GENERAL GOVERNMENT</u>				
<u>General Government and Personnel Costs:</u>				
Salaries	\$ 70,343	\$ 69,351	\$ 992	\$ 70,619
Payroll Taxes	5,382	5,668	(286)	5,482
Pension Expense	13,567	12,995	572	14,969
Medical and Life Insurance	22,200	22,809	(609)	19,318
Unemployment Compensation	400	-	400	906
Meetings and Travel	4,000	5,412	(1,412)	3,961
Postage	2,500	1,787	713	2,732
Supplies	3,000	3,047	(47)	2,868
Telephone	5,000	4,181	819	5,226
Election Costs	800	1,444	(644)	625
Dues and Subscriptions	2,600	2,682	(82)	2,638
Data Processing	1,750	3,625	(1,875)	2,118
Auditing	5,000	7,400	(2,400)	17,485
Legal Fees	20,000	31,615	(11,615)	23,622
MDIA Inspection Fees	5,100	6,574	(1,474)	14,166
Other Municipal Expenses	5,600	6,332	(732)	3,384
Other Planning Expenses	12,800	20,124	(7,324)	23,661
Planning Commission	500	150	350	15,247
Administrative Fees	6,535	8,767	(2,232)	8,188
Advertising	1,000	4,815	(3,815)	4,517
Shorescan	1,700	365	1,335	-
Miscellaneous Office Help	750	529	221	-
Capital Outlay/Depreciation	55,921	-	55,921	1,640
<u>Total General Government and Personnel Costs</u>	<u>246,448</u>	<u>219,672</u>	<u>26,776</u>	<u>243,372</u>
<u>Program and Direct Operating Expenses:</u>				
Community Deputy Program	-	-	-	8,628
Community Programs	5,850	4,694	1,156	5,660
General Operating Supplies	5,000	4,331	669	5,451
Holiday Decorations and Celebrations	1,800	767	1,033	748
Other General Operating Expenses	1,500	5,159	(3,659)	8,573
Queenstown Volunteer Fire Company	14,000	14,000	-	10,000
<u>Total Program and Direct Operating Expenses</u>	<u>28,150</u>	<u>28,951</u>	<u>(801)</u>	<u>39,060</u>
<u>Facilities Equipment Costs:</u>				
Municipal Office Repairs and Maintenance	1,500	2,125	(625)	3,998
Municipal Office Utilities	4,600	4,874	(274)	4,934
Office Equipment	1,930	1,773	157	1,813
Property and Liability Insurance	6,000	7,080	(1,080)	6,062
<u>Total Facilities Equipment Costs</u>	<u>14,030</u>	<u>15,852</u>	<u>(1,822)</u>	<u>16,807</u>
<u>TOTAL GENERAL GOVERNMENT</u>	<u>288,628</u>	<u>264,475</u>	<u>24,153</u>	<u>299,239</u>
<u>PUBLIC WORKS</u>				
<u>Personnel Costs:</u>				
Salaries	75,128	65,826	9,302	73,902
Payroll Taxes	5,747	5,161	586	6,939
Medical and Life Insurance	-	4,317	(4,317)	-
Pension Expense	14,424	11,169	3,255	7,584
<u>Total Personnel Costs</u>	<u>95,299</u>	<u>86,473</u>	<u>8,826</u>	<u>88,425</u>
<u>Facilities Equipment Costs:</u>				
Equipment Repairs	7,500	2,752	4,748	6,178
Gas	5,000	5,262	(262)	2,828
Capital Outlay	-	-	-	2,685
Vehicle Repairs	1,100	180	920	341
<u>Total Facilities Equipment Costs</u>	<u>13,600</u>	<u>8,194</u>	<u>5,406</u>	<u>12,032</u>

TOWN OF QUEENSTOWN
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
 ALL FUND TYPES
 YEAR ENDED JUNE 30, 2013

SCHEDULE B
 PAGE 2

	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/12
<u>Program and Direct Operating Expenses:</u>				
Grass Mowing	3,500	3,420	80	3,965
Landfill Fees	20,000	19,538	462	21,358
Mosquito Control	2,300	2,250	50	2,250
Recycling Collection	8,200	9,314	(1,114)	8,170
Snow Removal	1,000	-	1,000	-
Street Lighting	15,000	19,349	(4,349)	18,453
Street Repair	16,500	138	16,362	853
Stormwater Ditch Maintenance	1,000	1,000	-	5,600
Tree Maintenance	750	1,030	(280)	520
Tools and Small Equipment	500	-	500	-
Miscellaneous General Labor	2,500	3,345	(845)	-
Waste Collection	20,025	22,139	(2,114)	19,409
Insurance - Property Liability	-	1,128	(1,128)	-
Total Program and Direct Operating Expenses	91,275	82,651	8,624	80,578
TOTAL PUBLIC WORKS	200,174	177,318	22,856	181,035
<u>PARKS AND RECREATION</u>				
<u>Facilities Equipment Costs:</u>				
Park Expenses	5,000	893	4,107	-
Dock Electric	800	937	(137)	777
Dock Garbage Collection	2,910	3,369	(459)	4,262
Dock Repairs	750	-	750	117
Courthouse Repairs and Maintenance	15,000	13,847	1,153	8,461
TOTAL PARKS AND RECREATION	24,460	19,046	5,414	13,617
<u>DEBT SERVICE</u>				
Interest	17,812	10,026	7,786	12,642
Principal	-	23,601	(23,601)	21,696
TOTAL DEBT SERVICE	17,812	33,627	(15,815)	34,338
TOTAL GENERAL FUND	531,074	494,466	36,608	528,229
<u>ENTERPRISE FUNDS</u>				
Salaries	-	-	-	15,344
Office Supplies and Expense	-	-	-	154
Tools and Small Equipment	500	-	500	-
Lab Fees	750	364	386	-
Operating Supplies	750	-	750	48
Telephone	1,650	2,104	(454)	1,961
Auditing	5,000	7,400	(2,400)	17,200
Legal Fees	-	2,373	(2,373)	1,481
Data Processing/Accounting Fees	1,750	4,105	(2,355)	2,402
Dues and Subscriptions	250	250	-	250
Utilities	28,000	31,863	(3,863)	30,118
Plant Repairs and Maintenance	45,000	33,405	11,595	31,255
Tower Repairs and Maintenance	17,500	15,003	2,497	15,003
Water and Sewer Lines Repairs and Maintenance	30,000	13,249	16,751	39,226
Water/Sewer Operating Fees	58,189	65,616	(7,427)	51,285
Engineering Fees	30,000	1,545	28,455	1,050
Advertising	750	1,252	(502)	2,554
Insurance	6,000	4,855	1,145	5,656
Chemicals	6,500	10,052	(3,552)	8,789
Sludge Disposal	20,000	35,799	(15,799)	27,503
Depreciation	70,436	73,054	(2,618)	72,816
Miscellaneous	-	50	(50)	2,066
TOTAL ENTERPRISE FUNDS	323,025	302,339	20,686	326,161
TOTAL EXPENDITURES/EXPENSES	\$ 854,099	\$ 796,805	\$ 57,294	\$ 854,390



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

To the Town 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, 2013, 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 January 25, 2014.

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.

Members

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • PRIVATE COMPANIES PRACTICE SECTION
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
January 25, 2014