

TOWN OF QUEENSTOWN, MARYLAND
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2014

TOWN OF QUEENSTOWN
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BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

SCHEDULE OF FINDINGS AND RESPONSES



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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, 2014, 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, 2014, and the respective changes in financial position, and where applicable, cash flows 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.

Members

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

Report on Summarized Comparative Information

We have previously audited the Town of Queenstown's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 supplemental 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.

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 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 January 6, 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
January 6, 2015

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by \$.11 million, or 2%, from 2013 to 2014. (See table below.) Governmental fund net position increased by 3%, and the Business-type fund increased by 2%, which is the result of the Town being able to meet operational costs with current revenues.

Town of Queenstown
Net Position
(in millions)

	Governmental		Business-Type		Total		Total Percentage Change
	2014	2013	2014	2013	2014	2013	
Current and Other Assets	.74	.66	.41	.48	1.15	1.14	1%
Non-Current Assets	.67	.68	(.61)	(.61)	.06	.07	(14%)
Capital Assets	1.27	1.31	3.15	2.78	4.42	4.09	8%
Total Assets	2.68	2.65	2.95	2.65	5.63	5.30	6%
Current Liabilities	.03	.05	.18	.04	.21	.09	133%
Long Term Debt	.22	.24	.56	.44	.78	.68	15%
Total Liabilities	.25	.29	.74	.48	.99	.77	29%
Net Position							
Net Investment in Capital Assets	1.05	1.07	2.59	2.33	3.64	3.40	7%
Restricted	.04	.04	-	-	.04	.04	-
Unrestricted	1.34	1.25	(.38)	(.16)	.96	1.09	(12%)
Total Net Position	2.43	2.36	2.21	2.17	4.64	4.53	2%

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

The Town's total revenues decreased by 24% to \$.98 million (See table below). Revenue from business-type activities decreased 48% to \$.37 million, which is primarily due to the capital grant revenue for the water meter installations and connection fees for new customers in the previous year. Governmental revenues increased by 5% to \$.61 million, which is primarily due to an increase in personal property tax, local income tax, and highway use tax.

The total cost of all programs and services increased by 5%, to \$.87 million. Costs of business-type activities increased by 10% to \$.33 million. Costs of governmental activities increased by 2% to \$.54 million. The increases were due to various line item expenditures increasing over last year.

Town of Queenstown
Change in Net Position
(in millions)

	Governmental		Business-Type		Total		Total Percentage
	2014	2013	2014	2013	2014	2013	Change
Program Revenue:							
Fees, Fines, Services	.04	.04	.37	.41	.41	.45	(9%)
Capital Grants	-	-	-	.30	-	.30	(100%)
General Revenue							
Taxes	.57	.53	-	-	.57	.53	8%
Investment Income (loss)	-	.01	-	-	-	.01	(100%)
Total Revenue	.61	.58	.37	.71	.98	1.29	(24%)
Program Expenses:							
General	.28	.29	-	-	.28	.29	(3%)
Public Works	.22	.19	-	-	.22	.19	16%
Parks and Recreation	.03	.04	-	-	.03	.04	(25%)
Debt Service	.01	.01	-	-	.01	.01	-
Water and Sewer	-	-	.33	.30	.33	.30	10%
Total Expenses	.54	.53	.33	.30	.87	.83	5%
Change in Net Position	.07	.05	.04	.41	.11	.46	(76%)
Net Position Beginning	2.36	2.31	2.17	1.76	4.53	4.07	11%
Net Position Ending	2.43	2.36	2.21	2.17	4.64	4.53	2%

GENERAL FUND BUDGETARY HIGHLIGHTS

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

General Fund revenues of \$613,648 were over the budget by \$43,857. This favorable variance was mainly attributed to higher than anticipated real estate tax, local income tax and highway use tax.

General Fund expenditures of \$524,844 were over the budget by \$21,545. This unfavorable variance was mainly attributed to various line item expenditures coming in over budget.

TOWN OF QUEENSTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the Town had \$4.42 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	
	2014	2013	2014	2013	2014	2013
Land	.08	.08	0.06	.06	.14	.14
Buildings	1.01	1.04	-	-	1.01	1.04
Equipment	.04	.04	2.53	2.31	2.57	2.35
Construction in Progress	-	-	.56	.41	.56	.41
Improvements	.14	.15	-	-	.14	.15
Total Capital Assets	1.27	1.31	3.15	2.78	4.42	4.09

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 \$.78 million in debt outstanding versus \$.68 million last year, an increase of \$.10 million.

Town of Queenstown
Debt
(in millions)

	Governmental		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
Mortgage Municipal Building	.22	.24	-	-	.22	.24
Line of Credit	-	-	-	.14	-	.14
Line of Credit - WWTP	-	-	.08	-	.08	-
Water Meter Loan	-	-	.29	.30	.29	.30
Del Rhodes Well	-	-	.19	-	.19	-
Total	.22	.24	.56	.44	.78	.68

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, 2014

ECONOMIC FACTORS AND 2014 BUDGET & RATES

Fiscal year (FY) 2014 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/grant. Phase 1 has begun and will continue into FY 2015.

In addition, Queenstown has received a loan/grant from Maryland Department of the Environment (MDE) for the WWTP. This is funded from the Bay Restoration Fee. Queenstown was one of the only small sized municipalities to receive these funds.

In a green initiative funded by the 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.

Queenstown has applied for and received funding from MDE for a new potable drinking well on Del Rhodes Avenue. The design and construction are completed, and the well is in full operation.

The State Highway Administration approved the funding of 1.2 million dollars to construct the Street Scape project on Del Rhodes Avenue in FY 2012. This project was completed in FY 2014.

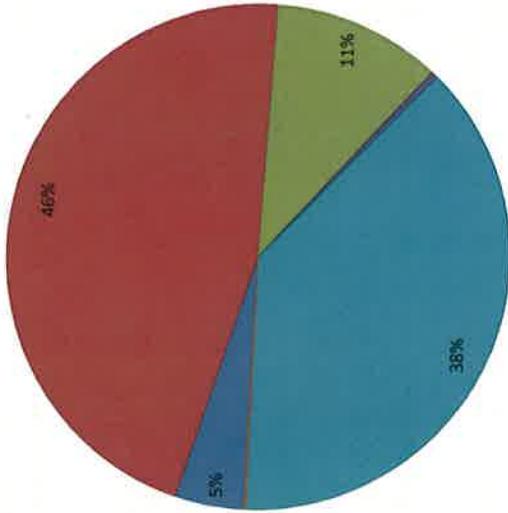
Queenstown will continue to meet the financial challenge by focusing on rigorous expense management. Every contract and every supplier will be reviewed with expense control as the goal. The results have been favorable so far, as the Town balanced its prior and current year budget, controlled expenses 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.

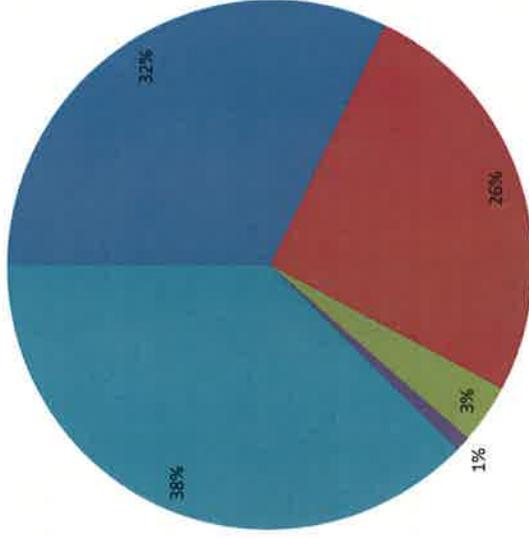
TOWN OF QUEENSTOWN
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 TOTAL REVENUE AND EXPENSES
 GOVERNMENT-WIDE
 JUNE 30, 2014

TOTAL REVENUES



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

TOTAL EXPENSES



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

TOWN OF QUEENSTOWN
GOVERNMENT-WIDE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT A

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 99,332	\$ 72,658	\$ 171,990
Accounts Receivable	22,765	223,099	245,864
Investments	618,969	110,853	729,822
Internal Balances	608,832	(608,832)	-
Prepaid Pension Costs	62,604	-	62,604
Capital Assets:			
Land	82,600	57,962	140,562
Buildings	1,342,269	-	1,342,269
Equipment	227,182	4,500,672	4,727,854
Construction in Progress	-	557,648	557,648
Improvements	216,087	-	216,087
Vehicles	31,230	-	31,230
Accumulated Depreciation	<u>(632,046)</u>	<u>(1,963,957)</u>	<u>(2,596,003)</u>
 Total Assets	 <u>\$ 2,679,824</u>	 <u>\$ 2,950,103</u>	 <u>\$ 5,629,927</u>
 <u>LIABILITIES</u>			
Accounts Payable	\$ 35,327	\$ 180,830	\$ 216,157
Non-Current Liabilities:			
Due within one year	23,848	22,754	46,602
Due in more than one year	<u>192,134</u>	<u>534,936</u>	<u>727,070</u>
 Total Liabilities	 <u>251,309</u>	 <u>738,520</u>	 <u>989,829</u>
 <u>NET POSITION</u>			
Net Investment in Capital Assets	1,051,340	2,594,635	3,645,975
Restricted	37,844	-	37,844
Unrestricted	<u>1,339,331</u>	<u>(383,052)</u>	<u>956,279</u>
 Total Net Position	 <u>\$ 2,428,515</u>	 <u>\$ 2,211,583</u>	 <u>\$ 4,640,098</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, 2014

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	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	\$ 280,112	\$ 42,539	\$ 1,000	\$ -	\$ (236,573)	\$ -	\$ (236,573)
Public Works	223,372	-	-	-	(223,372)	-	(223,372)
Parks and Recreation	31,578	-	-	-	(31,578)	-	(31,578)
Debt Service	8,033	-	-	-	(8,033)	-	(8,033)
<u>Total Governmental Activities</u>	543,095	42,539	1,000	-	(499,556)	-	(499,556)
<u>Business-Type Activities</u>							
Water and Sewer	328,111	367,879	-	-	-	39,768	39,768
<u>Total Government</u>	\$ 871,206	\$ 410,418	\$ 1,000	\$ -	\$ (499,556)	\$ 39,768	\$ (459,788)
General Revenues:							
Taxes:							
Property Taxes, Penalties, and Interest					441,841	-	441,841
Local Income Tax					104,682	-	104,682
Highway Use Tax					20,345	-	20,345
Investment Income					3,241	618	3,859
Transfers In/(Out)					(3,679)	3,679	-
Total General Revenues					566,430	4,297	570,727
Change in Net Position					66,874	44,065	110,939
Net Position - Beginning					2,361,641	2,167,518	4,529,159
Net Position - Ending					\$ 2,428,515	\$ 2,211,583	\$ 4,640,098

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN
BALANCE SHEET
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT C

<u>ASSETS</u>	<u>General Fund</u>
Current Assets:	
Cash	\$ 99,332
Accounts Receivable	22,765
Investments	<u>618,969</u>
Total Current Assets	<u>741,066</u>
Non-Current Assets:	
Internal Balances	608,832
Prepaid Pension Costs	<u>62,604</u>
Total Non-Current Assets	<u>671,436</u>
Total Assets	<u>\$ 1,412,502</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts Payable	\$ <u>35,327</u>
Fund Balance:	
Nonspendable	671,436
Assigned	37,844
Unassigned	<u>667,895</u>
Total Fund Balance	<u>1,377,175</u>
Total Liabilities and Fund Balance	<u>\$ 1,412,502</u>

Total Fund Balance	\$ 1,377,175
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Amounts Reported For Governmental Activities in The Statement of Net Position Are Different Because:

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.	1,267,322
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Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(215,982)</u>
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Net Position of Governmental Activities	<u>\$ 2,428,515</u>
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TOWN OF QUEENSTOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT D

		<u>General Fund</u>
Revenues:		
Property Taxes	\$	394,449
Intergovernmental		173,419
Licenses and Permits		32,074
Investment Income		3,241
Rents		6,205
Miscellaneous		<u>4,260</u>
Total Revenues		<u>613,648</u>
Expenditures:		
Current:		
General Government		262,088
Public Works		207,437
Parks and Recreation		16,218
Capital Outlay		8,074
Debt Service		<u>31,027</u>
Total Expenditures		<u>524,844</u>
Excess of Revenues over Expenditures		88,804
Other Financing Sources/(Uses)		
Transfer In/(Out)		<u>(3,679)</u>
Net Change in Fund Balance		85,125
Fund Balance - Beginning		<u>1,292,050</u>
Fund Balance - Ending	\$	<u><u>1,377,175</u></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, 2014

EXHIBIT E

Net Change in Fund Balance - Total Governmental Funds	\$ 85,125
Amounts reported for governmental activities in the statement of activities are different because:	
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.	8,074
Debt Service Principal	22,994
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>(49,319)</u>
Change in Net Position of Governmental Activities	\$ <u><u>66,874</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, 2014

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>06/30/13</u>
Revenues:				
Property Taxes	\$ 386,390	\$ 394,449	\$ 8,059	\$ 385,514
Intergovernmental	129,811	173,419	43,608	149,766
Licenses and Permits	34,900	32,074	(2,826)	34,686
Investment Income	10,000	3,241	(6,759)	4,321
Rents	6,120	6,205	85	6,120
Miscellaneous	2,570	4,260	1,690	2,539
 Total Revenues	 <u>569,791</u>	 <u>613,648</u>	 <u>43,857</u>	 <u>582,946</u>
Expenditures:				
Current:				
General Government	244,418	262,088	(17,670)	264,475
Public Works	208,528	207,437	1,091	177,318
Parks and Recreation	11,250	16,218	(4,968)	19,046
Capital Outlay	8,075	8,074	1	-
Debt Service	31,028	31,027	1	33,627
 Total Expenditures	 <u>503,299</u>	 <u>524,844</u>	 <u>(21,545)</u>	 <u>494,466</u>
Excess (Deficiency) of Revenues over/(under) Expenditures	66,492	88,804	22,312	88,480
Other Financing Sources/(Uses):				
Operating Transfers In/(Out)	(3,679)	(3,679)	-	-
Excess (Deficiency) of Revenues and Other Sources over/(under) Expenditures	62,813	85,125	22,312	88,480
Fund Balance - Beginning	<u>1,292,050</u>	<u>1,292,050</u>	<u>-</u>	<u>1,203,570</u>
Fund Balance - Ending	<u>\$ 1,354,863</u>	<u>\$ 1,377,175</u>	<u>\$ 22,312</u>	<u>\$ 1,292,050</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, 2014

EXHIBIT G

<u>ASSETS</u>	
Current Assets:	
Cash	\$ 72,658
Accounts Receivable	223,099
Investments	<u>110,853</u>
Total Current Assets	<u>406,610</u>
Capital Assets:	
Land	57,962
Construction in Progress	557,648
Equipment	4,500,672
Accumulated Depreciation	<u>(1,963,957)</u>
Total Capital Assets	<u>3,152,325</u>
Total Assets	<u>\$ 3,558,935</u>

<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 180,830
Notes Payable - Current Portion	<u>22,754</u>
Total Current Liabilities	<u>203,584</u>
Non-Current Liabilities:	
Long Term Debt - Net of Current Portion	534,936
Internal Balances	<u>608,832</u>
Total Non - Current Liabilities	<u>1,143,768</u>
Total Liabilities	<u>1,347,352</u>

<u>NET POSITION</u>	
Net Investment in Capital Assets	2,594,635
Unrestricted	<u>(383,052)</u>
Total Net Position	<u>2,211,583</u>
Total Liabilities and Net Position	<u>\$ 3,558,935</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, 2014

EXHIBIT H

	<u>Budget</u>	<u>Water and Sewer Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/13</u>
Operating Revenues:				
Charges for Services	\$ 387,477	\$ 269,274	\$ (118,203)	\$ 207,120
Rents	63,790	72,283	8,493	63,446
Connection Fees	-	26,322	26,322	134,934
Miscellaneous	250	-	(250)	134
	<u>451,517</u>	<u>367,879</u>	<u>(83,638)</u>	<u>405,634</u>
Operating Expenses:				
Lab Fees	750	-	750	364
Operating Supplies	1,250	2,200	(950)	-
Telephone	2,000	2,501	(501)	2,104
Auditing	5,000	2,840	2,160	11,505
Legal Fees	-	-	-	2,373
Dues and Subscriptions	250	250	-	250
Utilities	29,500	31,374	(1,874)	31,863
Plant Repairs and Maintenance	87,500	31,378	56,122	33,405
Tower Repairs and Maintenance	17,500	15,003	2,497	15,003
Water and Sewer Lines Repairs and Maintenance	25,000	9,704	15,296	13,249
Water/Sewer Operating Fees	58,630	59,864	(1,234)	65,616
Tools and Small Equipment	-	-	-	-
Engineering Fees	10,000	487	9,513	1,545
Advertising	800	546	254	1,252
Insurance	12,500	14,120	(1,620)	4,855
Debt Service	93,205	3,499	89,706	-
Chemicals	8,500	12,227	(3,727)	10,052
Sludge Disposal	25,000	40,887	(15,887)	35,799
Depreciation	73,054	100,900	(27,846)	73,054
Miscellaneous	500	331	169	50
	<u>450,939</u>	<u>328,111</u>	<u>122,828</u>	<u>302,339</u>
Operating Income (Loss)	578	39,768	39,190	103,295
Non-Operating Revenue:				
Water Meter Grant Revenue	-	-	-	302,940
Investment Income	2,000	618	(1,382)	4,087
	<u>2,000</u>	<u>618</u>	<u>(1,382)</u>	<u>307,027</u>
Income/(Loss) Before Transfers	2,578	40,386	37,808	410,322
Transfers	3,679	3,679	-	-
Change in Net Position	6,257	44,065	37,808	410,322
Net Position - Beginning	2,167,518	2,167,518	-	1,757,196
Net Position - Ending	<u>\$ 2,173,775</u>	<u>\$ 2,211,583</u>	<u>\$ 37,808</u>	<u>\$ 2,167,518</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, 2014

EXHIBIT I

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 361,241
Rents	72,283
Cash Payments for Interest	(3,499)
Cash Payments to Suppliers for Goods and Services	<u>(187,425)</u>
Net Cash Flows from Operating Activities	<u>242,600</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers - General Fund	<u>3,679</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Debt	84,657
Purchase of Capital Assets	(369,201)
Retirement of Debt	<u>(158,626)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(443,170)</u>
Cash Flows from Investing Activities:	
Investment Income	<u>271</u>
Net Decrease in Cash	(196,620)
Cash - Beginning	<u>269,278</u>
Cash - Ending	\$ <u><u>72,658</u></u>
Reconciliation of Net Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 39,768
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	100,900
Change in Accounts Receivable	65,645
Change in Accounts Payable	<u>36,287</u>
Net Cash Flows from Operating Activities	\$ <u><u>242,600</u></u>
Non-Cash Capital and Related Financing Activities:	
Loan proceeds due from MDE included in Accounts Receivable	\$ <u>186,200</u>
Capital project costs included in Accounts Payable	\$ <u><u>108,321</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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, 2014

EXHIBIT J
PAGE 6

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 January 6, 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	\$ 114,309
General Fund Petty Cash	100
General Fund CDs	581,125
Parks and Recreation CD	30,541
Courthouse CD	7,303
Water and Sewer Fund Checking	58,194
Waste Water Treatment Plant Checking	4,603
Enterprise CDs	<u>110,853</u>
<u>TOTAL CASH AND INVESTMENTS – PER BANK STATEMENTS</u>	<u>\$ 907,028</u>

The balance of cash 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>406,928</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 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 \$7,317.

TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS:

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

	<u>ASSETS</u>			
	<u>Balance Beginning of Year</u>	<u>Acquisitions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Land	\$ 140,562	\$ -	\$ -	\$ 140,562
Buildings	1,342,269	-	-	1,342,269
Equipment	219,108	8,074	-	227,182
Improvements	216,087	-	-	216,087
Vehicles	31,230	-	-	31,230
Water and Sewer	<u>4,580,798</u>	<u>477,522</u>	<u>-</u>	<u>5,058,320</u>
TOTALS	\$ <u>6,530,054</u>	\$ <u>485,596</u>	\$ <u>-</u>	\$ <u>7,015,650</u>

	<u>ACCUMULATED DEPRECIATION</u>			
	<u>Balance Beginning of Year</u>	<u>Depreciation</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Buildings	\$ 299,589	\$ 31,817	\$ -	\$ 331,406
Equipment	184,354	7,028	-	191,382
Improvements	67,554	10,474	-	78,028
Vehicles	31,230	-	-	31,230
Water and Sewer	<u>1,863,057</u>	<u>100,900</u>	<u>-</u>	<u>1,963,957</u>
TOTALS	\$ <u>2,445,784</u>	\$ <u>150,219</u>	\$ <u>-</u>	\$ <u>2,596,003</u>

CAPITAL ASSETS \$ 4,419,647

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

Governmental Activities:		
General Government	\$	18,024
Parks and Recreation		15,935
Public Works		15,360
Enterprise Activity - Water and Sewer		<u>100,900</u>
Total Depreciation Expense	\$	<u>150,219</u>

TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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 \$15,690.

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. \$ 215,982

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 1st of each year. On February 1st of each year a principal, interest and administrative fee payment of \$18,649 is due. 286,833

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 1st of each year. On February 1st of each year a principal, interest and administrative fee payment of \$11,608 is due. 186,200

Line of Credit - Water and Sewer - Queenstown Bank - The Town was approved for a \$7,392,980 unsecured line of credit, payable in one lump sum on January 30, 2014, 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). 84,657

TOTAL DEBT \$ 773,672

TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30</u>	<u>Due within</u> <u>One year</u>
<u>Governmental Type Activities:</u>					
Mortgage Payable	\$ 238,977	\$ -	\$ (22,995)	\$ 215,982	\$ 23,848
<u>Business Type Activities:</u>					
Line of Credit	142,520	-	(142,520)	-	-
Line of Credit - WWTP	-	84,657	-	84,657	-
Water Meter Loan	302,940	-	(16,107)	286,833	15,242
Del Rhoades Well	-	186,200	-	186,200	7,512
<u>Total Debt</u>	<u>\$ 684,437</u>	<u>\$ 270,857</u>	<u>\$ (181,622)</u>	<u>\$ 773,672</u>	<u>\$ 46,602</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>
2015	\$ 23,848	\$ 7,180	\$ 22,754	\$ 6,435
2016	24,678	6,349	23,057	6,375
2017	25,573	5,454	23,364	6,068
2018	26,483	4,544	23,676	5,756
2019	27,425	3,602	23,994	5,439
2020 - 2024	87,975	5,106	124,912	22,249
2025 - 2029	-	-	133,660	13,501
2030 - 2034	-	-	182,273	4,337
<u>Totals</u>	<u>\$ 215,982</u>	<u>\$ 32,235</u>	<u>\$ 557,690</u>	<u>\$ 70,160</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:

The Town maintains The Town of Queenstown Deferred Compensation Plan, which is an Internal Revenue Code Section 457 plan, a defined contribution plan. The plan is administered by an independent plan administrator. The Town's administrative involvement is limited to transmitting amounts withheld from payroll to the plan administrator who performs investing functions. Section 457 plans require that plan assets are held in trust for the benefit of the plan participants and their beneficiaries, and will not be diverted for any other purpose. Accordingly, the financial activity of this plan is not reported in the Town's financial statements.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined

TOWN OF QUEENSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT J
PAGE 10

NOTE 8 - PENSION PLAN (CONTINUED):

instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefit a participant will receive depends solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. The Town incurs no cost in relation to this 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% 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 \$35,147 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2013, 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 \$10,434. 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, 2014, 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 \$30,541 for future, non-specific improvements.

TOWN OF QUEENSTOWN
SUPPLEMENTAL INFORMATION
JUNE 30, 2014

TOWN OF QUEENSTOWN
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF REVENUE - BUDGET AND ACTUAL
 ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE A

	2014			
	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/13
<u>TAXES-LOCAL:</u>				
<u>Real and Personal Property:</u>				
Real Estate Taxes	\$ 270,790	\$ 279,236	\$ 8,446	\$ 277,970
Interest on Delinquent Taxes	600	848	248	918
Personal Property and Corporation	115,000	114,365	(635)	106,626
<u>Total Real and Personal Property</u>	<u>386,390</u>	<u>394,449</u>	<u>8,059</u>	<u>385,514</u>
<u>Intergovernmental:</u>				
Real Property Tax Share - County	47,397	47,392	(5)	47,392
Local Income Tax	75,000	104,682	29,682	95,471
Highway Use Tax	6,414	20,345	13,931	5,903
State of MD Water Meter Grant	-	-	-	302,940
Critical Areas	1,000	1,000	-	1,000
<u>Total Intergovernmental</u>	<u>129,811</u>	<u>173,419</u>	<u>43,608</u>	<u>452,706</u>
<u>NET TAXES</u>	<u>516,201</u>	<u>567,868</u>	<u>51,667</u>	<u>838,220</u>
<u>LICENSES AND PERMITS:</u>				
Franchise	4,000	3,756	(244)	3,685
Building Permits	6,000	4,355	(1,645)	4,219
Other Licenses and Permits	1,000	550	(450)	-
Traders' Licenses	23,900	23,413	(487)	26,782
<u>TOTAL LICENSES AND PERMITS</u>	<u>34,900</u>	<u>32,074</u>	<u>(2,826)</u>	<u>34,686</u>
<u>CHARGES FOR SERVICES:</u>				
Water and Sewer	387,477	269,274	(118,203)	207,120
Connection Fees	-	26,322	26,322	134,934
<u>TOTAL CHARGES FOR SERVICES</u>	<u>387,477</u>	<u>295,596</u>	<u>(91,881)</u>	<u>342,054</u>
<u>MISCELLANEOUS REVENUE:</u>				
Interest	12,000	3,859	(8,141)	8,408
Rents	69,910	78,488	8,578	69,566
Bank Shares	370	371	1	371
Maps, Books, Copies, Etc.	200	56	(144)	43
Miscellaneous	2,250	3,833	1,583	2,261
<u>TOTAL MISCELLANEOUS REVENUE</u>	<u>84,730</u>	<u>86,607</u>	<u>1,877</u>	<u>80,649</u>
<u>TOTAL REVENUE</u>	<u>\$ 1,023,308</u>	<u>\$ 982,145</u>	<u>\$ (41,163)</u>	<u>\$ 1,295,609</u>

TOWN OF QUEENSTOWN
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
 ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE B

	2014			Prior Year 06/30/13
	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	
GOVERNMENTAL FUNDS				
GENERAL GOVERNMENT				
<u>General Government and Personnel Costs:</u>				
Salaries	\$ 72,809	\$ 66,523	\$ 6,286	\$ 69,351
Payroll Taxes	5,570	3,866	1,704	5,668
Pension Expense	15,455	22,025	(6,570)	12,995
Medical and Life Insurance	23,754	19,203	4,551	22,809
Unemployment Compensation	400	137	263	-
Meetings and Travel	5,500	6,731	(1,231)	5,412
Postage	2,500	1,853	647	1,787
Supplies	3,000	1,937	1,063	3,047
Telephone	4,100	3,568	532	4,181
Election Costs	1,400	1,384	16	1,444
Dues and Subscriptions	2,900	2,516	384	2,682
Data Processing	-	1,580	(1,580)	3,625
Auditing	5,000	11,260	(6,260)	7,400
Legal Fees	20,000	27,477	(7,477)	31,615
MDIA Inspection Fees	5,100	3,218	1,882	6,574
Other Municipal Expenses	5,600	8,974	(3,374)	6,332
Other Planning Expenses	15,200	12,160	3,040	20,124
Planning Commission	500	-	500	150
Administrative Fees	7,000	8,516	(1,516)	8,767
Advertising	2,200	1,274	926	4,815
Shorescan	1,700	1,635	65	365
Miscellaneous Office Help	750	2,158	(1,408)	529
Total General Government and Personnel Costs	200,438	207,995	(7,557)	219,672
<u>Program and Direct Operating Expenses:</u>				
Community Programs	5,850	4,838	1,012	4,694
Real Property Tax	-	4,028	(4,028)	-
General Operating Supplies	6,500	4,803	1,697	4,331
Holiday Decorations and Celebrations	1,200	673	527	767
Other General Operating Expenses	1,800	9,325	(7,525)	5,159
Queenstown Volunteer Fire Company	14,000	14,000	-	14,000
Total Program and Direct Operating Expenses	29,350	37,667	(8,317)	28,951
<u>Facilities Equipment Costs:</u>				
Municipal Office Repairs and Maintenance	2,000	2,475	(475)	2,125
Municipal Office Utilities	4,700	6,571	(1,871)	4,874
Office Equipment	1,930	1,534	396	1,773
Property and Liability Insurance	6,000	5,846	154	7,080
Total Facilities Equipment Costs	14,630	16,426	(1,796)	15,852
TOTAL GENERAL GOVERNMENT	244,418	262,088	(17,670)	264,475
PUBLIC WORKS				
<u>Personnel Costs:</u>				
Salaries	77,766	71,596	6,170	65,826
Payroll Taxes	5,950	4,653	1,297	5,161
Pension Expense	15,659	13,122	2,537	11,169
Medical and Life Insurance	6,183	10,887	(4,704)	4,317
Total Personnel Costs	105,558	100,258	5,300	86,473
<u>Facilities Equipment Costs:</u>				
Equipment Repairs	7,500	-	7,500	2,752
Gas	4,500	4,710	(210)	5,262
Vehicle Repairs	1,100	3,078	(1,978)	180
Capital Outlay	8,075	8,074	1	-
Total Facilities Equipment Costs	21,175	15,862	5,313	8,194

TOWN OF QUEENSTOWN
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
 ALL FUNDS
 YEAR ENDED JUNE 30, 2014

	Budgeted Amounts	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 06/30/12
<u>Program and Direct Operating Expenses:</u>				
Grass Mowing	\$ 3,600	\$ 4,555	\$ (955)	\$ 3,420
Landfill Fees	1,200	1,062	138	19,538
Mosquito Control	2,300	2,250	50	2,250
Recycling Collection	8,500	7,714	786	9,314
Snow Removal	1,000	-	1,000	-
Street Lighting	18,000	17,587	413	19,349
Street Repair	5,000	4,928	72	138
Stormwater Ditch Maintenance	1,000	10,585	(9,585)	1,000
Tree Maintenance	750	190	560	1,030
Tools and Small Equipment	500	-	500	-
Miscellaneous General Labor	2,000	1,379	621	3,345
Waste Collection	46,020	49,141	(3,121)	22,139
Insurance - Property Liability	-	-	-	1,128
<u>Total Program and Direct Operating Expenses</u>	<u>89,870</u>	<u>99,391</u>	<u>(9,521)</u>	<u>82,651</u>
<u>TOTAL PUBLIC WORKS</u>	<u>216,603</u>	<u>215,511</u>	<u>1,092</u>	<u>177,318</u>
<u>PARKS AND RECREATION</u>				
<u>Facilities Equipment Costs:</u>				
Park Expenses	5,000	627	4,373	893
Dock Electric	800	593	207	937
Dock Garbage Collection	3,700	242	3,458	3,369
Dock Repairs	750	14,756	(14,006)	-
Courthouse Repairs and Maintenance	1,000	-	1,000	13,847
<u>TOTAL PARKS AND RECREATION</u>	<u>11,250</u>	<u>16,218</u>	<u>(4,968)</u>	<u>19,046</u>
<u>DEBT SERVICE</u>				
Interest	12,150	8,033	4,117	10,026
Principal	18,878	22,994	(4,116)	23,601
<u>TOTAL DEBT SERVICE</u>	<u>31,028</u>	<u>31,027</u>	<u>1</u>	<u>33,627</u>
<u>TOTAL GENERAL FUND</u>	<u>503,299</u>	<u>524,844</u>	<u>(21,545)</u>	<u>494,466</u>
<u>ENTERPRISE FUNDS</u>				
Lab Fees	750	-	750	364
Operating Supplies	1,250	2,200	(950)	-
Telephone	2,000	2,501	(501)	2,104
Accounting/Auditing	5,000	2,840	2,160	11,505
Legal Fees	-	-	-	2,373
Dues and Subscriptions	250	250	-	250
Utilities	29,500	31,374	(1,874)	31,863
Plant Repairs and Maintenance	87,500	31,378	56,122	33,405
Tower Repairs and Maintenance	17,500	15,003	2,497	15,003
Water and Sewer Lines Repairs and Maintenance	25,000	9,704	15,296	13,249
Water/Sewer Operating Fees	58,630	59,864	(1,234)	65,616
Engineering Fees	10,000	487	9,513	1,545
Advertising	800	546	254	1,252
Insurance	12,500	14,120	(1,620)	4,855
Debt Service	93,205	3,499	89,706	-
Chemicals	8,500	12,227	(3,727)	10,052
Sludge Disposal	25,000	40,887	(15,887)	35,799
Depreciation	73,054	100,900	(27,846)	73,054
Miscellaneous	500	331	169	50
<u>TOTAL ENTERPRISE FUNDS</u>	<u>450,939</u>	<u>328,111</u>	<u>122,828</u>	<u>302,339</u>
<u>TOTAL EXPENDITURES/EXPENSES</u>	<u>\$ 954,238</u>	<u>\$ 852,955</u>	<u>\$ 101,283</u>	<u>\$ 796,805</u>



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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 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, 2014, 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 6, 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 2014-1, 2014-2, and 2014-3, that we consider to be significant deficiencies.

Members

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Compliance and Other Matters

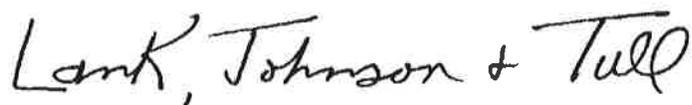
As part of obtaining reasonable assurance about whether the Town of Queenstown's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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*.

Management's Response to Findings

Town management's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. This response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 6, 2015

TOWN OF QUEENSTOWN
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Finding 2014-1: Financial reports provided at Town Commissioner meetings do not include budgetary comparisons for the two major funds. There is no way for the Commissioners to determine if they are within the budget for any line item of revenue or expense. Budgetary information hasn't been entered in the accounting system. Management oversight of the accounting function is significantly hindered by this deficiency.

Management's Response: The Finance Committee provides periodic updates of YTD expenses vs. budget. We will be working to include a copy of the current budget into our accounting system so that comparisons can be shown on reports.

Finding 2014-2: Monthly bank reconciliations should be done on all cash accounts on a timely basis. The water and sewer account had not been reconciled prior to audit fieldwork.

Management's Response: Due to the changeover from our old accounting system, there was a definite time lapse. As the accounting is fairly up-to-date, we will be able to comply with more timely reporting.

Finding 2014-3: All credit card receipts were not available for review during audit fieldwork. Receipts for all purchases using credit cards should be attached to the monthly credit card statement.

Management's Response: We recognize this and a single point of contact will be established for matching the receipts to the invoices.