

TOWN OF PERRYVILLE, MARYLAND
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND OTHER INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

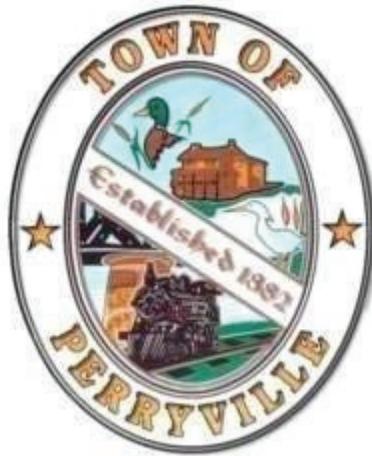


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RAGER, LEHMAN & HOUCK, P.C.
Opportunity Innovation Excellence

INDEPENDENT AUDITORS' REPORT

October 15, 2013

To The Mayor and Commissioners of Perryville
Town of Perryville, Maryland
Perryville, Maryland

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Perryville, Maryland (the "Town"), 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.

Auditors' 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. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Perryville, Maryland as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information, and schedule of funding progress - other postemployment benefits (OPEB) plan* on pages 4 through 18, 58, and 59 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Perryville, Maryland's basic financial statements. The other information, included in Schedules "3" and "4", is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules comprising the other information for the year ended June 30, 2013 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, the schedules comprising the other information for the year ended June 30, 2013 are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The schedules comprising the other information for the years ended June 30, 2010, 2011, and 2012 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Rager, Lehman & Houck, P.C.

Westminster, Maryland

Town of Perryville, Maryland

Management's Discussion and Analysis

June 30, 2013

INTRODUCTION

As management of the Town of Perryville, Maryland ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2013. It should be read in conjunction with the Town's basic financial statements, which begin on page 19, to enhance understanding of the Town's financial performance. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

NEW ACCOUNTING PRONOUNCEMENT IMPLEMENTED

The Town implemented the following GASB Statements during the year ended June 30, 2013:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - Statement No. 60 provides financial reporting guidance for service concession arrangements, defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from this parties. This statement was effective for periods beginning after December 15, 2011, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34* - Statement No. 61 provides additional criteria to governments for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement was effective for periods beginning after June 15, 2012, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - Statement No. 62 incorporates in the GASB's authoritative literature certain accounting and financial reporting guidance that is not included in the following pronouncements issued on or before November 30, 1989, which

does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Public Accounts' (AICPA) Committee on Accounting Procedure. This statement was effective for periods beginning after December 15, 2011, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - Statement No. 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position, and includes five components - assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement was effective for periods beginning after December 15, 2011, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure apart from renaming and presentation of the new categories.

FINANCIAL HIGHLIGHTS

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$37.9 million compared to \$36.5 million at June 30, 2012, as restated. Of this amount, \$1.9 million is restricted for specific uses and \$9.3 million may be used to meet the Town's ongoing obligations to citizens and creditors compared to \$7.2 million at June 30, 2012, as restated. \$26.7 million represents the Town's Net Investment in Capital Assets which is not readily available for use.

- The \$1.9 million restricted fund balance is due primarily to the Local Impact Grant funds. The Local Impact Grant funds are received from the operations of the Hollywood Casino Perryville as designated in state legislation allowing video lottery facilities and must be used for the purposes specified in the State of Maryland legislation.
- The net position of the Town's governmental activities increased in Fiscal Year (FY) 2013 by \$1.3 million.
- The net position of the proprietary funds increased in FY 2013 by approximately \$46,000.
- At the close of the current fiscal year, the Town's governmental General Fund reported an ending fund balance of \$9.0 million (\$7.8 million at June 30, 2012, as restated), of which \$7.0 million is unassigned and available for spending at the Town's discretion.
- The total cost of all of the Town's programs was \$6.3 million (\$3.8 million for governmental activities and \$2.5 million for business-type activities) for FY 2013 approximately \$513,000 more than in FY 2012, as restated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) can be found on pages 19 - 21 of this report.

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are governmental activities (those principally supported by taxes and revenues from other governments) and functions of the Town that are business-type activities (those that are intended to recover all or a significant portion of their costs through user fees and charges). The governmental activities of the Town include general government, public safety, public works, planning and zoning, parks and recreation, and interest. The business-type activities of the Town include water and sewer service.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS

The basic governmental fund financial statements can be found on pages 22 - 26 of this report.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluation of a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains two governmental funds, the General Fund and the Forest Conservation Fund. The Town adopts an annual budget for the General Fund and a budgetary comparison schedule has been provided within the Required Supplementary Information section to demonstrate compliance with the budget.

PROPRIETARY FUNDS

The basic water and sewer proprietary fund financial statements can be found on pages 27 - 31 of this report.

The Town maintains two enterprise type proprietary funds to account for the operations of providing water and sewer services, respectively. Enterprise funds are used to present the same functions as business-type functions in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 32 - 57 of this report.

GOVERNMENT WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Town, assets exceeded liabilities by approximately \$37.9 million at the close of the most recent fiscal year. By far, the largest portion of the Town's net position (70%) is its investment in capital assets (land, land improvements, buildings, infrastructure and machinery and equipment), less any related outstanding debt that was used to acquire those assets. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt.

A summary of the Town's condensed Statement of Net Position is as follows (\$,000 omitted) (See Pages 19 - 20):

	June 30, 2013			June 30, 2012, as restated		
	Govern- mental	Business Type	Total	Govern- mental	Business Type	Total
Current Assets	\$ 9,520	\$ 2,738	\$ 12,258	\$ 8,258	\$ 2,747	\$ 11,005
Capital Assets, Net	8,436	34,124	42,560	8,267	34,908	43,175
Total Assets	<u>17,956</u>	<u>36,862</u>	<u>54,818</u>	<u>16,525</u>	<u>37,655</u>	<u>54,180</u>
Current Liabilities	514	1,125	1,639	448	1,307	\$ 1,755
Long-Term Liabilities	251	15,067	15,318	190	15,724	15,914
Total Liabilities	<u>765</u>	<u>16,192</u>	<u>16,957</u>	<u>638</u>	<u>17,031</u>	<u>17,669</u>
Net Position:						
Net Investment in						
Capital Assets	8,246	18,401	26,647	8,062	18,442	\$ 26,504
Unrestricted	7,037	2,269	9,305	5,123	2,089	7,212
Restricted	1,908	-	1,909	2,702	93	2,795
Net Position	<u>\$ 17,191</u>	<u>\$ 20,670</u>	<u>\$ 37,861</u>	<u>\$ 15,887</u>	<u>\$ 20,624</u>	<u>\$ 36,511</u>

At the end of both the current and prior fiscal year, the Town is able to report positive balances in net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A summary of the Town's condensed Statement of Activities for the current and prior fiscal years is as follows (\$,000 omitted) (See Page 21):

	<u>June 30, 2013</u>			<u>June 30, 2012, as restated</u>		
	<u>Govern- mental</u>	<u>Business Type</u>	<u>Total</u>	<u>Govern- mental</u>	<u>Business Type</u>	<u>Total</u>
Revenues						
Program Revenues						
Charges for Services	\$ 47	\$ 2,145	\$ 2,192	\$ 53	\$ 2,002	\$ 2,055
Operating Grants and Contributions	203	23	226	208	9	217
Capital Grants and Contributions	202	170	372	1,087	439	1,526
General Revenues			-			-
Taxes	3,448	-	3,448	3,550	-	3,550
Unrestricted Grants, Contributions, and Franchise Fees	1,146	228	1,374	1,696	354	2,050
Interest Income and Rents	16	4	20	11	3	14
Miscellaneous	34	-	34	18	-	18
Total Revenues	5,096	2,570	7,666	6,623	2,807	9,430
Expenses						
General Government	823	-	823	661	-	661
Planning and Zoning	186	-	186	193	-	193
Public Safety	1,348	-	1,348	1,233	-	1,233
Public Works	1,021	-	1,021	1,033	-	1,033
Parks and Recreation	406	-	406	253	-	253
Interest on Long-Term Debt	8	-	8	10	-	10
Water Services	-	1,079	1,079	-	998	998
Sewer Services	-	1,445	1,445	-	1,422	1,422
Total Expenses	3,792	2,524	6,316	3,383	2,420	5,803
Changes in Net Position	1,304	46	1,350	3,240	387	3,627
Net Position at Beginning of Year	15,887	20,624	36,511	12,647	20,237	32,884
Net Position at End of Year	\$ 17,191	\$ 20,670	\$ 37,861	\$ 15,887	\$ 20,624	\$ 36,511

For the current fiscal year, the Town is able to report an increase in its net position for both its governmental activities and business-type activities as well as for the government as a whole.

GOVERNMENTAL ACTIVITIES

For the fiscal year ended June 30, 2013, revenues from governmental activities totaled approximately \$5.1 million. Property and Personal Property Taxes represented the largest revenue source (60%), Local Impact Grants (19%), Intergovernmental - Other (11%) followed by Local Income and Other Taxes (8%). Included in the intergovernmental revenue, the Town received a commitment of grant funds to offset the Town's cost of construction for the Transient Pier totaling \$150,000.

The largest components of the governmental activities, approximately \$1.3 million of expenses, Public Safety services (36%), followed by \$1.0 million for public works (27%), approximately \$823,000 general government (22%), and approximately \$406,000 for parks and recreation (11%).

BUSINESS-TYPE ACTIVITIES

Of the approximately \$2.0 million of operating revenues from business-type activities were water and sewer service charges (99%). Other non-operating revenues and capital contributions included Local Impact Grant capital contributions of approximately \$228,000, connection charges of \$110,000 and other capital contributions primarily stemming from the VA portion of the waste water plant upgrade debt and other grants of approximately \$182,000.

All of the approximately \$2.4 million of business-type activities expenses relate to the operation of the water and sewer plants and the related distribution and collection systems. The largest components of these expenses are depreciation (40%), salaries and wages (27%), utilities & telephone (11%), payroll taxes & fringe benefits (8%) and repair & maintenance (5%).

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS (See Pages 22 - 26)

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$9.0 million, a net increase of \$1.2 million from the prior year amount, however of the \$9.0 million fund balance \$7.0 million is unassigned and \$1.9 million is restricted.

The General Fund is the primary operating fund of the Town. At the end of the current fiscal year, the total fund balance of the General Fund was \$9.0 million, the majority of which was unassigned (78%). Two useful measures of liquidity are the portion of unassigned fund balance to total expenditures and total fund balance to total expenditures. At the end of the current fiscal year the General Fund showed a healthy 178% and 228% respectively.

Another useful liquidity measurement is the current ratio. The concept behind this ratio is to ascertain whether the Town's short-term assets are readily available to pay off its short term liabilities. In theory, this ratio measures whether or not the Town has enough resources to pay its bills over the next 12 months. At the end of the fiscal year the General Fund's current ratio is 18.0. For every dollar in current liabilities, there is \$18 in current assets.

PROPRIETARY FUNDS (See Pages 27 - 31)

The Town's proprietary funds provide the same type of information found in the business-type activities part of the government-wide financial statements, but in greater detail.

Total net position of the water and sewer proprietary fund at the fiscal year end was \$20.7 million. Net position invested in capital assets, net of related debt, was \$18.4 million and unrestricted net position was \$2.3 million. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

At the end of the fiscal year the Proprietary Fund's current ratio is 2.4. For every dollar in current liabilities, there is \$2.40 in current assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Town's investment in capital assets for governmental and business-type activities at June 30, 2013 was \$42.6 million, net of \$13.6 million of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings, infrastructure and machinery and equipment.

Four (4) Construction in Progress projects were in process at the end the fiscal year. The Shoreline Revetment project with a contract value of approximately \$360,000 (approximately \$120,000 of which was incurred during FY 2013); building & site design services for the police station with a contract value of approximately \$103,000; Rodger's Tavern plaster repair project with a contract value of \$32,000; and police vehicle improvements totaling \$16,000.

\$375,000 of Local Impact Grant funding had been set aside in the FY 2013 to complete shoreline revetment work at the Community Park which is ongoing. In the last few years the shoreline at the park has been greatly eroded, primarily due to some large tropical storms that hit this area. If the Town does not address the erosion problem, the Town could lose a large portion of the property at Stumps Point and be forced to relocate the existing roadway in the park.

Other major capital asset activity during the current fiscal year included:

- Parks and recreation capital outlays include window restoration at Rodger’s Tavern (\$40,000); the trade in and purchase of a new mower (\$8,000).
- Improvements to roads and sidewalks totaling approximately \$49,000.
- The purchase of a Pole Barn for Public Works at a cost of approximately \$32,000.
- Installation of streetlights in the Riverview Hills neighborhood at a cost of approximately \$37,000.
- The purchase of two police vehicles at a cost of approximately \$52,000.
- Other water and sewer proprietary fund capital outlays of approximately \$200,000 consisting primarily of expenditures for the waste water treatment plant.

Capital assets consisted of the following (\$,000 omitted):

	June 30, 2013			June 30, 2012, as restated		
	Govern- mental	Business Type	Total	Govern- mental	Business Type	Total
Capital Assets, at Cost	\$ 12,029	\$ 44,159	\$ 56,188	\$ 11,582	\$ 44,018	\$ 55,600
Less: Accum. Depreciation	3,593	10,035	13,628	3,315	9,110	12,425
Net Capital Assets	<u>\$ 8,436</u>	<u>\$ 34,124</u>	<u>\$ 42,560</u>	<u>\$ 8,267</u>	<u>\$ 34,908</u>	<u>\$ 43,175</u>

Additional information on the Town’s capital assets can be found in Note 3 in the notes to the financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year the Town had total long-term debt of \$16 million (\$16.8 million at June 30, 2012) of which approximately \$787,000 is due within one year and the remaining \$15.2 million is due in subsequent years. Most of the debt (\$15.8 million) was related to business-type activities while the approximate remaining \$253,000 was related to governmental activities.

Of the \$15.8 million debt related to business activities, \$10 million was for the Perryville Water Treatment Plant and Water Distribution System Improvements Project (“the Project”). The Project consisted of improvements to the Town’s drinking water system including (i) the construction of a new 1.0 mgd plant with membrane filtration to replace the existing 0.75 mgd water treatment plant, (ii) construction of a raw water pumping station and transmission main to replace the existing facilities, (iii) construction of a 1.0 million gallon elevated water storage tank and associated water transmission main, and (iv) related architectural, financial, legal, planning and engineering expenses. The new

plant and water storage tank went online in early 2009. The Project was financed through the State of Maryland, Water Quality Financing Administration, Drinking Water Revolving Loan Fund (DWRLF). The final principal amount on the loan was \$11.5 million with an additional \$1.9 million disbursed to the Town as loan forgiveness for a total financing package of \$13.4 million.

Of the remaining \$5.8 million in debt related to business activities, \$5.1 million is allocated for the Perryville Waste Water Treatment Plant Upgrade project. Construction on the project is complete. The facility currently serves the approximately 4,400 residents of Perryville as well as the neighboring Perry Point Veterans Medical Hospital. This is a Water Quality Revolving Loan Fund and a BNR/ENR Grant project, which contributes to the health of the Chesapeake Bay by reducing the nutrient loading to the bay. The project is funded as follows: for each dollar, 46.52% is Water Quality Revolving Loan Fund share, 24.03% is BNR (Biological Nutrient Removal) Grant, and the remaining 29.45% is Bay Restoration ENR (Enhanced Nutrient Removal) Grant share. The Town received approximately \$7 million in grant funding to complete this project.

The Town's total debt decreased by approximately \$779,000 during the fiscal year, primarily due to principal pay down.

Additional information on the Town's long-term debt can be found in Note 4 in the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS (See Page 58)

The Town amended its General Fund budget several times during the fiscal year. Total estimated revenues and expenditures were adjusted upward for approximately \$152,000 (primarily for increase in anticipated Local Impact and other grant funding) and \$359,000 (primarily for increases in anticipated grant program and contribution expenditures and capital expenditures), respectively.

During the fiscal year, total actual revenues on a budgetary basis were approximately \$474,000 (or 8%) less than the final amended budget. Real and personal property tax revenues were 8% more than the final amended budget (approximately \$239,000). Additional differences between the final amended budget and actual revenues were due mainly to the recognition of Local Impact Grant money received that was 47% less than budgeted (approximately \$859,000); Intergovernmental - State revenues were 40% more than the final amended budget (approximately \$106,000); and Local Income & Other Taxes were 37% more than the final amended budget (approximately \$100,000).

Actual expenditures on a budgetary basis were approximately \$1.8 million (or 32%) less than the final amended budget. The primary reason budgeted expenditures were less than actual was due mainly to timing of expenditures for capital outlay projects not completed by fiscal year end which include the shore revetment project at the community park, concept and design work for police station and other facilities costs, and road and street improvement projects, and limited use of budgeted contingencies and reserves.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The primary source of operating revenue for the General Fund of the Town of Perryville has historically been real and personal property tax revenues. For Fiscal Year (FY) 2014, the Mayor and Commissioners reduced the real property tax rate to \$0.3136 / \$100 of assessed value from the prior year rate of \$0.3144 / \$100 of assessed value which was the same as the Constant Yield Rate. Perryville expects to receive \$1,414,363 in real estate tax revenues for FY 2014, which, combined with \$1,437,700 anticipated in Personal Property Tax revenues, amounts to approximately 55% of the FY 2014 General Fund Operating Budget.

As the municipality in Cecil County with a Video Lottery Terminal (V.L.T.) / Slots facility, Perryville is receiving a new source of revenue, Local Impact Grants. The Local Impact Grants are included in the FY 2014 Budget in the amount of \$1,347,362 or approximately 26% of the General Fund Operating Budget. The Local Impact Grant Funds are intended, by the State of Maryland legislation, to mitigate the impacts of casino operations on the surrounding community, which for Perryville the funds are meant to mitigate the impacts of Hollywood Casino Perryville on the Town of Perryville.

The Local Impact Grant funds must be used for the following purposes: Infrastructure Improvements, Facilities, Public Safety, Sanitation, Economic and Community Development (including housing), and Other Public Services and Improvements. The Spending Plan for the Local Impact Grant money went through an approval process that included public input and hearings. The “Local Impact Grants Approved Spending Plan 4/5/11” and revision are available for view on the Town’s website (www.perryvillemd.org) under the ‘What’s New’ tab or by calling Town Hall. The original plan was for three years, and when it was approved the Town expected that each year the plan be reviewed and amended if needed. That was done for Year 1 and the Town has done the same thing for the Year 2 and 3. Included in the plan are short-term initiatives, such as equipment purchases, and long-term initiatives, such as the construction of new facilities. The existing plan also includes an economic development incentives plan and the hiring of new employees to include two police officers, an Engineer, and an Economic Development Manager. Assuming the casino remains an open and viable business entity in Perryville, the Town expects to receive this revenue stream, with the amount varying based upon actual casino earnings, for the next fifteen (15) years after which time the agreed upon split of funds with Cecil County will be re-negotiated. Year 4 through 6 Local Impact Grant spending plan is in the process of being created.

We previously reported that the State of Maryland made significant cuts to two sources of aid to local governments. Those two sources were Highway User Revenues and State Aid for Police Protection grants. While some of the Highway User Revenue and the State Aid for Police Protection funding was restored, they are still significantly less than previous distributions and are no longer a large source of funding for improvement to Town roads and streets and public safety.

Other notable FY 2014 General Fund projects include the following:

- The Town purchase of replacement computers for staff totaling approximately \$4,000. Replacement computers are needed due to aged computers.
- Restorations to historic Rodgers Tavern continue with \$57,000 in MHAA grant funding and an equal match of Town funds. There is also funding set aside in a restricted account to cover some of the restoration costs, with the funding source being Local Impact Grants. In recent years, the building received a new roof, electrical system, HVAC system and windows. Interior plaster repair and painting is in process. Further plans for the Tavern include restoration of the front porch, stone repointing, lintel repair and connecting the Tavern to the Town's wastewater system. Once the restoration is complete, the building is expected to house a museum and café. To date, the Rodgers Tavern restorations have been funded primarily by grants with some matching funds provided by the Town.
- There is \$300,000 set aside in the FY 2014 budget for Capital Outlay -Roads and Sidewalks, with an additional \$45,000 in repair money for Roads and Sidewalks and \$30,000 for storm water system rehabilitation. The Town intends to rehabilitate the roads, sidewalks and the storm water system on Elm Street and Otsego Street. The project is in the design phase. More information will follow including public meetings with and for the residents.
- A contract for the repaving of Sumpter Dr. and Clayton St. was signed near the end of the FY 2013 and the work was completed in early FY 2014 totaling approximately \$121,000.
- The Town owns a dam that was once part of a water supply plant. The plant is no longer in operation and has not been for many years. The dam is in need of repair. The Town is considering its options to repair the dam or remove it altogether. The Town budgeted \$36,000 in the FY 2014 budget to address the concerns with the dam.
- Lastly, the General Fund is reserving funds for new facilities or improvements to existing facilities. A facilities bank account was established in June 2012 to set aside funds for facility construction and improvements. In FY 2014, approximately \$424,000 will be deposited into this account for the Town Hall with community center, Police department, and property for Little League complex. The Local Impact Grants are the source of funding for these initiatives. Note that the police department is under contract with Manns-Woodward Associates for building and site design.

At the August 2013 Town Meeting a Payment In Lieu of Taxes (PILOT) agreement was approved by the Town Board with Richmond Hill Development LLC. The agreement reduces the real estate taxes on the property by \$3,168 per year for 10 years, which represents the Town's contribution to the redevelopment project to support affordable housing initiatives. The project includes renovation of the Richmond Hill Manor Apartments. A PILOT agreement is also anticipated for the Richmond Hill Manor Senior Apartments with a contribution in the amount of \$2,640 per year for 10 years. Similarly, this project represents the Town's support of affordable housing initiatives and includes renovation of the senior apartments.

In FY 2013 the following amounts, totaling \$158,095, were paid to The Community Fire Company of Perryville, MD, Inc.:

- A grant in the amount of \$25,000 was awarded to the fire company through a competitive 501(c) grant program established by the Town through the Local Impact Grant funds. The funding was used by the fire company to support paid EMS (aka the Career Services Program). This grant was awarded in FY 2012 with the funds designated in the Town's FY 2012 financial statements; however, the funds were paid out in FY 2013.
- An annual donation in the amount of \$32,000, with \$2,000 of that amount being designated for the Fire Police. The source of this funding was General Fund revenues.
- A grant of \$80,000 to help fund paid EMS services (aka the Career Services Program). The source of this funding was the Local Impact Grants.
- A donation of \$20,000 with a request that the fire company use the funds for the Career Services Program. The source of this funding was the Local Impact Grants.
- A pass-through grant (where the Town is only a pass-through agency) from the State Senate 508 Grant Program in the amount of \$1,095 was paid to the fire company.
- Not included in the \$158,095 and not yet paid to the fire company, a grant in the amount of \$20,000 was awarded to the fire company through the competitive 501(c) grant program during FY 2013. The grant is for supplies and equipment needed by the fire company. These funds have been restricted in the Town's FY 2013 financial statements.

In FY 2014, the Town budgeted \$139,000 for the Community Fire Company of Perryville, MD, Inc. This includes \$32,000 in annual contribution from the General Fund revenues of the Town, \$105,000 from Local Impact Grants for possible additional support of the Career Services Program and \$2,000 estimated amount of a pass-through Senate 508 Grant from the State of Maryland. As of this writing, only the \$32,000 has been paid. During FY 2014, we also expect to pay the \$20,000 grant mentioned in the above bullet point.

The Town offers three grant programs to residents and businesses located within the corporate limits of the Town, and in the case of the 501(c) grants, funds are available to non-profit organizations that also offer services to Perryville residents even if the organization does not have a physical location in Town. Two of the grant programs, the Downtown Revitalization and the 501(c) grants are funded by the Local Impact Grants. The third program, the Façade Improvement Grant Program, is funded by the State's Community Legacy Grant Program, which the Town then re-grants to eligible property owners through a competitive grant program.

- During FY 2013 the Town paid out \$16,000 in Downtown Revitalization Grants, which were awarded during FY 2012. Those grants allowed for broken windows to be replaced in a home, porch and gutter restoration on another home and improved accessibility and landscaping at a local business. During FY 2013 another Downtown Revitalization Grant was awarded in the amount of \$9,405, of

which, \$9,135 was paid out in early FY 2014 and it was for thermal and moisture protection improvements at a local business.

- During FY 2013 the Town paid out \$25,000 in 501(c) grants to The Community Fire Company of Perryville, MD, Inc. that had been awarded in FY 2012 - as discussed above. During FY 2013 the Town awarded \$55,000 in 501(c) grants including \$20,000 to the fire company (also discussed above), \$18,400 for the Susquehanna Post 135 American Legion to make parking lot repairs, \$3,000 to the Chesapeake Feline Association for Trap Neuter Return Programs that they run in Town for feral cat control, and \$13,600 for a tractor for the Little League to improve fields. As of this writing, the Legion and the Perryville Little League both met the grant requirements and received their funds during FY 2013. The Town expects to pay the fire company and the feline association during Fiscal Year 2014 for the grants that were awarded during FY 2013 and has designated the money in the FY 2013 financials to cover the costs.
- The Façade Grant Program was instituted during FY 2014 and, as of this writing, no grants have yet been awarded. A new round of funding for each of the three grant programs is available during FY 2014 with the grant applications being due on December 2, 2013 for any of the three grant programs.

The two main sources of income for the water and sewer enterprise fund are user fees and connection charges. The Town did not increase connection or user fees for the water and sewer fund. The VA sewer revenue is billed as per the contract between the Town and the VA.

Due to the required improvements to the water and wastewater plants, the water and sewer fund has a significant amount of annual debt service. The annual debt service payment on the water plant and related improvements is approximately \$460,000 and the annual debt service on the wastewater plant is approximately \$366,000. In the FY 2014 budget, Local Impact Grant spending totaling \$176,000 was budgeted towards the debt service payments, but in order to cover the debt service payments and continue to produce quality water and clean wastewater, the Town will need to consider additional rate increases in the coming years or find other sources of income for the water and sewer fund. Note that the VA agreed to pay its proportionate share of the wastewater treatment plant debt service on the recent plant improvements.

Water and Sewer connection fee income is budgeted at \$330,000 for FY 2014. Connection fees are paid when a new user connects to the water and / or wastewater plants. This typically occurs with new development projects. The \$330,000 budget represents a sizeable increase from FY 2013 actual revenue of \$110,000. FY 2013 connection fee revenue realized a substantial decrease due to commercial construction projects not being realized. The FY 2014 budget anticipates construction beginning on the Cedar Corner Development, which is a single family housing development planned to be adjacent to the Gotham Bush housing development. We believe the budget estimate is conservative and there are a few other possible connections during FY 2014 including a Frenchman Land Company warehouse project located in the Light Industrial zoning district of the Town. Another possibility is the connection of a MARC Maintenance and Layover Facility to Town utilities. MTA has requested connection to the Town's utilities

even though the project is out of Town limits. This project is still in the very early stages and was not considered in the budgeted revenues for connection fees.

Notable FY 2014 Enterprise Fund projects include the following:

- Concrete for Basins at the wastewater treatment plant totaling \$13,000.
- \$30,000 for sewer main improvements has been budgeted.
- \$20,000 has been budgeted to replace water meters.

At the October 2, 2013 Town Meeting, the Mayor and Commissioners approved a change to the employee retirement plan, which covers employees across all the funds of the Town (General Fund, Water and Sewer Fund). The new plan becomes effective on January 1, 2014. The retirement plan that the Town previously offered to the employees was a SIMPLE IRA plan with matching contributions up to 3% from the Town. The new plan is a 457(b) plan and also includes matching contributions of up to 3% from the Town. While the plan type changed, the Town's matching contribution did not change, and therefore it has minimal impact on the Town's budget. The 457(b) plan allows for more investment choices and is generally a more flexible plan for retirement,

As of this writing, the United States Federal Government did not pass a budget for the Federal fiscal year beginning October 1, 2013 and it is shut down. While representing a significant concern for the economy as a whole, as long as the shutdown does not last for an extended period of time, the effects on the Town of Perryville government is expected to be minimal since the operation of the Town government is not heavily reliant on federal funds. If the shutdown does last for an extended period of time, there will be trickle down impact to the Town including potential inability of residents to pay their bills, reduced spending at local businesses and potential reductions to State and County shared revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Town Administrator, Town of Perryville, 515 Broad Street, P.O. Box 773, Perryville, MD 21903.

BASIC FINANCIAL STATEMENTS

TOWN OF PERRYVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Pooled Cash and Cash Equivalents			
Unrestricted	\$ 3,030,736	\$ 493,615	\$ 3,524,351
Restricted	2,279,879	227,486	2,507,365
Non-Pooled Cash and Cash Equivalents	2,656,826	1,413,654	4,070,480
Certificates of Deposit	1,000,000	-	1,000,000
Accounts Receivable	26,269	63,321	89,590
Taxes Receivable	22,919	-	22,919
Local Impact Grant Receivable	171,725	40,281	212,006
Due from Other Governments	302,727	-	302,727
Unbilled Services	-	515,151	515,151
Internal Balances	16,330	(16,330)	-
Prepaid Expenses and Deposits	12,344	-	12,344
TOTAL CURRENT ASSETS	9,519,755	2,737,178	12,256,933
NON-CURRENT ASSETS			
Property and Equipment			
Construction in Progress	145,041	-	145,041
Land and Land Rights	2,470,599	20,822	2,491,421
Buildings and Improvements	2,300,194	40,578,559	42,878,753
Equipment	921,783	1,512,181	2,433,964
Infrastructure	5,487,057	1,978,507	7,465,564
Vehicles	704,253	68,880	773,133
	12,028,927	44,158,949	56,187,876
Less: Accumulated Depreciation	3,592,699	10,034,488	13,627,187
Net Property and Equipment	8,436,228	34,124,461	42,560,689
TOTAL NON-CURRENT ASSETS	8,436,228	34,124,461	42,560,689
TOTAL ASSETS	17,955,983	36,861,639	54,817,622
DEFERRED OUTFLOWS OF RESOURCES	-	-	-

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	31,296	58,251	89,547
Accrued Payroll and Related Benefits	44,565	25,635	70,200
Accrued Interest Payable	1,181	63,619	64,800
Accrued Compensated Absences	680	-	680
Unearned Revenues	49,137	-	49,137
Current Portion of Bonds and Loans Payable	15,000	750,111	765,111
Payable from Restricted Assets			
Accounts Payable and Accrued Expenses	366,094	163,016	529,110
Accrued Payroll and Related Benefits	5,291	3,218	8,509
Due to Other Governments	-	61,252	61,252
TOTAL CURRENT LIABILITIES	513,244	1,125,102	1,638,346
NON-CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	-	42,298	42,298
Accrued Compensated Absences	62,174	44,797	106,971
Accrued Other Postemployment Benefits	14,091	5,904	19,995
Bonds and Loans Payable	175,000	14,973,618	15,148,618
TOTAL NON-CURRENT LIABILITIES	251,265	15,066,617	15,317,882
TOTAL LIABILITIES	764,509	16,191,719	16,956,228
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION			
Net Investment in Capital Assets	8,246,228	18,400,732	26,646,960
Restricted	1,908,494	-	1,908,494
Unrestricted	7,036,752	2,269,188	9,305,940
TOTAL NET POSITION	\$ 17,191,474	\$ 20,669,920	\$ 37,861,394

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 822,925	\$ 664	\$ -	\$ -	\$ (822,261)	\$ -	\$ (822,261)
Planning and Zoning	186,161	24,083	-	-	(162,078)	-	(162,078)
Public Safety	1,347,840	-	138,122	-	(1,209,718)	-	(1,209,718)
Public Works	1,020,653	1,273	62,980	-	(956,400)	-	(956,400)
Parks and Recreation	406,233	21,390	1,490	202,198	(181,155)	-	(181,155)
Interest on Long-term Debt	7,900	-	-	-	(7,900)	-	(7,900)
Total Governmental Activities	3,791,712	47,410	202,592	202,198	(3,339,512)	-	(3,339,512)
Business-Type Activities							
Water Services	1,079,023	1,094,752	10,271	1,851	-	27,851	27,851
Sewer Services	1,445,156	1,050,753	12,545	167,806	-	(214,052)	(214,052)
Total Business-Type Activities	2,524,179	2,145,505	22,816	169,657	-	(186,201)	(186,201)
TOTAL PRIMARY GOVERNMENT	\$ 6,315,891	\$ 2,192,915	\$ 225,408	\$ 371,855	(3,339,512)	(186,201)	(3,525,713)
GENERAL REVENUES							
Taxes							
Real Estate Taxes					1,394,149	-	1,394,149
Personal Property Taxes					1,652,642	-	1,652,642
Earned Income and Other Taxes					401,578	-	401,578
Grants, Contributions, and Franchise Fees Not Restricted to Specific Programs							
Interest Income and Rents					1,145,770	228,005	1,373,775
Miscellaneous					15,948	4,207	20,155
					33,707	-	33,707
TOTAL GENERAL REVENUES					4,643,794	232,212	4,876,006
CHANGES IN NET POSITION							
Net Position - Beginning of Year, as Restated					1,304,282	46,011	1,350,293
					15,887,192	20,623,909	36,511,101
NET POSITION - END OF YEAR					\$ 17,191,474	\$ 20,669,920	\$ 37,861,394

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Non-Major Governmental Fund	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Pooled Cash and Cash Equivalents			
Unrestricted	\$ 3,030,736	\$ -	\$ 3,030,736
Restricted	2,279,879		2,279,879
Non-Pooled Cash and Cash Equivalents	2,656,826	-	2,656,826
Certificates of Deposit	1,000,000	-	1,000,000
Accounts Receivable	26,269	-	26,269
Taxes Receivable	22,919	-	22,919
Local Impact Grant Receivable	171,725	-	171,725
Due from Other Governments	302,727	-	302,727
Due from Other Funds	12,491	3,839	16,330
Prepaid Expenses and Deposits	12,344	-	12,344
TOTAL ASSETS	9,515,916	3,839	9,519,755
 DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 9,515,916	\$ 3,839	\$ 9,519,755

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Non-Major Governmental Fund	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 31,296	\$ -	\$ 31,296
Accrued Payroll and Related Benefits	44,565	-	44,565
Accrued Interest Payable	1,181	-	1,181
Accrued Compensated Absences	680	-	680
Unearned Revenues	80,979	3,839	84,818
Payable from Restricted Assets			
Accounts Payable and Accrued Expenses	366,094	-	366,094
Accrued Payroll and Related Benefits	5,291	-	5,291
TOTAL LIABILITIES	530,086	3,839	533,925
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
FUND BALANCES			
Nonspendable	12,344	-	12,344
Restricted	1,908,494	-	1,908,494
Assigned	27,217	-	27,217
Unassigned	7,037,775	-	7,037,775
TOTAL FUND BALANCES	8,985,830	-	8,985,830
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 9,515,916	\$ 3,839	\$ 9,519,755

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 8,985,830
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.</p>	8,436,228
<p>Property tax and related revenues are recognized in the period for which levied, rather than when "available". A portion of the property tax revenues are not available and, therefore, are unearned in the fund financial statements.</p>	35,681
<p>Long-term accrued compensated absences and accrued other postemployment benefits are not payable in the current period and, therefore, are reported as wages in the period during which the absence or benefit occurs in the fund financial statements.</p>	(76,265)
<p>Long-term liabilities, including both current and non-current portions of bonds and loans payable, are not due and payable in the current period and, therefore, are not reported in the fund financial statements.</p>	(190,000)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 17,191,474

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Non-Major Governmental Fund	Total Governmental Funds
REVENUES			
Taxes			
Local Property Taxes	\$ 3,071,842	\$ -	\$ 3,071,842
Local Income and Other Taxes	367,404	-	367,404
Licenses and Permits	68,575	-	68,575
Intergovernmental			
Federal	9,660	-	9,660
State	368,626	-	368,626
County - Local Impact Grant	972,023	-	972,023
County - Other	178,689	-	178,689
Charges for Services	22,112	-	22,112
Fines and Forfeitures	1,124	-	1,124
Interest Income	15,948	-	15,948
Miscellaneous	38,252	-	38,252
TOTAL REVENUES	5,114,255	-	5,114,255
EXPENDITURES			
General Government	771,152	-	771,152
Planning and Zoning	183,136	-	183,136
Public Safety			
Police	1,170,205	-	1,170,205
Volunteer Fire Company	111,095	-	111,095
Public Works			
Highways and Streets	659,340	-	659,340
Solid Waste Collection	256,351	-	256,351
Parks and Recreation	199,294	-	199,294
Debt Service			
Principal	15,000	-	15,000
Interest	7,900	-	7,900
Capital Outlays	573,509	-	573,509
TOTAL EXPENDITURES	3,946,982	-	3,946,982
NET CHANGES IN FUND BALANCES	1,167,273	-	1,167,273
Fund Balances - Beginning of Year, as Restated	7,818,557	-	7,818,557
FUND BALANCES - END OF YEAR	\$ 8,985,830	\$ -	\$ 8,985,830

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 1,167,273**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Add: Capital Outlays	573,509
Less: Depreciation Expense	(402,296)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.	(8,383)
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Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	15,000
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Property tax and related revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.	(25,051)
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Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenue in the governmental funds.	6,790
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In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the change in:

Accrued Compensated Absences	(8,469)
Accrued Other Postemployment Benefits	(14,091)

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,304,282**

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
CURRENT ASSETS			
Pooled Cash and Cash Equivalents			
Unrestricted	\$ 259,875	\$ 233,740	\$ 493,615
Restricted	1,609	225,877	227,486
Non-Pooled Cash and Cash Equivalents	120,187	1,293,467	1,413,654
Accounts Receivable	25,214	38,107	63,321
Unbilled Services	241,312	273,839	515,151
Local Impact Grant Receivable	8,480	31,801	40,281
Due from Other Funds	13,807	-	13,807
TOTAL CURRENT ASSETS	<u>670,484</u>	<u>2,096,831</u>	<u>2,767,315</u>
NON-CURRENT ASSETS			
Property and Equipment			
Land and Land Rights	16,647	4,175	20,822
Buildings and Improvements	15,421,526	25,157,033	40,578,559
Equipment	412,342	1,099,839	1,512,181
Infrastructure	1,330,005	648,502	1,978,507
Vehicles	18,277	50,603	68,880
	<u>17,198,797</u>	<u>26,960,152</u>	<u>44,158,949</u>
Less: Accumulated Depreciation	2,493,077	7,541,411	10,034,488
Net Property and Equipment	<u>14,705,720</u>	<u>19,418,741</u>	<u>34,124,461</u>
TOTAL NON-CURRENT ASSETS	<u>14,705,720</u>	<u>19,418,741</u>	<u>34,124,461</u>
TOTAL ASSETS	<u>15,376,204</u>	<u>21,515,572</u>	<u>36,891,776</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	31,763	26,488	58,251
Accrued Payroll and Related Benefits	13,001	12,634	25,635
Accrued Interest Payable	18,878	44,741	63,619
Due to Other Funds	-	30,137	30,137
Current Portion of Bonds and Loans Payable	426,889	323,222	750,111
Payable from Restricted Assets			
Accounts Payable and Accrued Expenses	-	163,016	163,016
Accrued Payroll and Related Benefits	1,609	1,609	3,218
Due to Other Governments	-	61,252	61,252
TOTAL CURRENT LIABILITIES	<u>492,140</u>	<u>663,099</u>	<u>1,155,239</u>
NON-CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	42,298	-	42,298
Accrued Compensated Absences	17,813	26,984	44,797
Accrued Other Postemployment Benefits	2,900	3,004	5,904
Bonds and Loans Payable	9,812,529	5,161,089	14,973,618
TOTAL NON-CURRENT LIABILITIES	<u>9,875,540</u>	<u>5,191,077</u>	<u>15,066,617</u>
TOTAL LIABILITIES	<u>10,367,680</u>	<u>5,854,176</u>	<u>16,221,856</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net Investment in Capital Assets	4,466,302	13,934,430	18,400,732
Unrestricted	542,222	1,726,966	2,269,188
TOTAL NET POSITION	<u>\$ 5,008,524</u>	<u>\$ 15,661,396</u>	<u>\$ 20,669,920</u>

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Water Fund	Sewer Fund	Total Proprietary Funds
OPERATING REVENUES			
Charges for Services	\$ 949,141	\$ 992,052	\$ 1,941,193
Reading and Related Fees	2,828	8,701	11,529
TOTAL OPERATING REVENUES	951,969	1,000,753	1,952,722
OPERATING EXPENSES			
Contracted Services	5,182	15,969	21,151
Depreciation	385,404	587,460	972,864
Insurance	25,042	37,341	62,383
Other Administrative Expenses	24,046	42,074	66,120
Payroll Taxes and Fringe Benefits	93,023	102,203	195,226
Repairs and Maintenance	40,208	70,979	111,187
Salaries and Wages	324,348	335,953	660,301
Supplies and Materials	21,821	46,482	68,303
Utilities	81,444	174,973	256,417
TOTAL OPERATING EXPENSES	1,000,518	1,413,434	2,413,952
OPERATING LOSS	(48,549)	(412,681)	(461,230)
NON-OPERATING REVENUES			
(EXPENSES)			
Connection Charges	50,000	60,000	110,000
Gain (Loss) on Disposal of Assets	(2,345)	63,892	61,547
Interest Income	939	3,268	4,207
Rental Income	92,783	-	92,783
Interest Expense	(76,160)	(95,614)	(171,774)
TOTAL NON-OPERATING REVENUES	65,217	31,546	96,763
(EXPENSES)	65,217	31,546	96,763
NET INCOME (LOSS) BEFORE			
CAPITAL CONTRIBUTIONS	16,668	(381,135)	(364,467)
Capital Contributions - Local Income Grant	48,001	180,004	228,005
Capital Contributions - Other	12,122	170,351	182,473
CHANGES IN NET POSITION	76,791	(30,780)	46,011
Net Position - Beginning of Year, as Restated	4,931,733	15,692,176	20,623,909
NET POSITION - END OF YEAR	\$ 5,008,524	\$ 15,661,396	\$ 20,669,920

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Inflows			
Cash Received From Customers	\$ 938,676	\$ 1,122,343	\$ 2,061,019
Outflows			
Cash Paid to Suppliers	215,481	382,676	598,157
Cash Paid to Employees	409,466	429,933	839,399
	<u>624,947</u>	<u>812,609</u>	<u>1,437,556</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>313,729</u>	<u>309,734</u>	<u>623,463</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Inflows			
Net Cash Received From Other Funds	-	114,906	114,906
Other Revenues	92,783	-	92,783
	<u>92,783</u>	<u>114,906</u>	<u>207,689</u>
Outflows			
Net Cash Paid to Other Funds	30,173	-	30,173
	<u>30,173</u>	<u>-</u>	<u>30,173</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>62,610</u>	<u>114,906</u>	<u>177,516</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Inflows			
Capital Contributions and Grants	63,044	361,306	424,350
Connection Fees	50,000	60,000	110,000
Proceeds from Sale of Capital Assets	850	71,148	71,998
	<u>113,894</u>	<u>492,454</u>	<u>606,348</u>
Outflows			
Interest Paid	77,068	97,585	174,653
Purchase of Capital Assets	47,529	245,915	293,444
Payments on Long-Term Debt	423,926	318,594	742,520
	<u>548,523</u>	<u>662,094</u>	<u>1,210,617</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(434,629)</u>	<u>(169,640)</u>	<u>(604,269)</u>

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Water Fund	Sewer Fund	Total Proprietary Funds
CASH FLOWS FROM INVESTING ACTIVITIES			
Inflows			
Interest Received	939	3,268	4,207
	939	3,268	4,207
NET CASH PROVIDED BY INVESTING ACTIVITIES	939	3,268	4,207
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(57,351)	258,268	200,917
Cash and Cash Equivalents - Beginning of Year	439,022	1,494,816	1,933,838
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 381,671	\$ 1,753,084	\$ 2,134,755
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Pooled Cash and Cash Equivalents			
Unrestricted	\$ 259,875	\$ 233,740	\$ 493,615
Restricted	1,609	225,877	227,486
Non-Pooled Cash and Cash Equivalents	120,187	1,293,467	1,413,654
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 381,671	\$ 1,753,084	\$ 2,134,755

See Accompanying Notes

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Town of Perryville, Maryland (the “Town”) was incorporated in 1882 and adopted its present charter February 6, 1990, as amended. The Town operates under a Mayor - Commissioner supervised form of government and provides the following services as authorized by its charter: general administrative, public safety and enforcement, streets, recreation and parks, planning and zoning, water services, and sewer and sanitation services.

The Town’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units of the Town.

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented by the Town during the year ended June 30, 2013 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements - Statement No. 60 provides financial reporting guidance for service concession arrangements, defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from this parties. This statement was effective for periods beginning after December 15, 2011, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34* - Statement No. 61 provides additional criteria to governments for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement was effective for periods beginning after June 15, 2012, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - Statement No. 62 incorporates in the GASB's authoritative literature certain accounting and financial reporting guidance that is not included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Public Accounts' (AICPA) Committee on Accounting Procedure. This statement was effective for periods beginning after December 15, 2011, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - Statement No. 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position, and includes five components - assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement was effective for periods beginning after December 15, 2011, and was implemented by the Town as of July 1, 2012 with no significant effect on financial statements presentation or disclosure apart from renaming and presentation of the new categories.

Basic Financial Statements - Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund (reporting the Town's major funds) financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's general administrative, planning and zoning, public safety, public works, and parks and recreation are classified as governmental activities. The Town's water and sewer services are classified as business-type activities.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full-accrual, economic-resource basis, which recognizes all long-term assets, receivables, and deferred outflows of resources as well as long-term debt and obligation and deferred inflows of resources. The Town's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost per functional category (public works, recreation and parks, etc.), which are otherwise being supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function or business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other general revenues not restricted to specific program functions are reported instead as general revenues.

The net costs (by function or program) are normally covered by general revenue (property and income taxes, intergovernmental revenues, interest income, etc.). The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The Town utilizes various criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Governmental Funds

Governmental funds are those through which most governmental functions of the Town are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets and deferred inflows of resources are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred outflows of resources are assigned to the fund from which they will be paid.

The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is a description of the Town's major governmental funds:

General Fund - The General Fund is the primary operating fund of the Town. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

The following is a description of the Town's Non-Major Governmental Fund:

Forest Conservation Fund - The Forest Conservation Fund accounts for financial resources received and used for the afforestation or reforestation, including site identification, acquisition, and preparation, within the Town in accordance with the Forest Conservation Fund local program.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues for the Town's proprietary funds are charges for water services and sewer services. Operating expenses for the Town's proprietary funds include personnel services, contracted services, utilities, supplies and materials, repairs and maintenance, administrative and general, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town's proprietary funds are all classified as enterprise funds. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the Town's major enterprise funds:

Water Fund - The Water Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water services to the general public on a continuing basis are partially financed through user charges.

Sewer Fund - The Sewer Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing sewer services to the general public on a continuing basis are partially financed through user charges.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as unearned revenues or deferred outflows of resources by the recipient.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, with a remaining maturity of three months or less when purchased, are considered to be cash equivalents. The carrying amount approximates estimated fair value because of the short maturity of those instruments.

Unbilled Services

Unbilled customer service receivables for water consumption and related sewer charges are based upon the actual quantity of water used during the subsequent billing quarter.

Capital Assets and Depreciation

Capital assets used in governmental fund type operations are accounted for in the government-wide financial statements, rather than in governmental funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets are capitalized by the Town if they have a value of \$1,000 or more for a single item, or \$2,000 or more for like items purchased as a group, with an estimated useful life in excess of one year. Capital assets are depreciated using the straight-line, full-year method over the following estimated useful lives:

Buildings and Improvements	20 - 50 years
Infrastructure	50 years
Machinery, Equipment and Vehicles	5 - 20 years
Water and Sewer Improvements	10 - 50 years
Water and Sewer Plants, Lines, Tanks	50 years

Government-Wide Statements

In the government-wide financial statements, capital assets used in operations are accounted for as property and equipment. General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements. All general infrastructure assets, including all roads, bridges, and other infrastructure assets, acquired subsequent to July 1, 2003 are reported at historical cost. The Town has elected not to retroactively report intangible assets, including capital assets identified as having indefinite useful lives or being internally generated, prior to July 1, 2009. All intangible assets acquired subsequent to July 1, 2009 are reported at historical cost.

Depreciation of all exhaustible capital assets is recorded as a direct expense in the statement of activities, with accumulated depreciation reflected in the statement of net position.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Additions are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

Interfund Activity

Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after non-operating revenues/expenses in proprietary funds.

In the fund financial statements, interfund loans and centralized processing balances outstanding are classified as interfund receivables/payables. These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

The Town allocates a percentage of salaries and wages and related costs of personnel who perform general and administrative services to the Water and Sewer Funds but are paid through the General Fund.

Accrued Compensated Absences

The Town permits employees to accumulate unused vacation time to a maximum of 240 hours, earned equally from each pay based on the employee's length of service. Upon termination from employment, an employee will be paid for annual vacation leave accumulated to the date of separation up to 240 hours, plus any accumulated annual leave earned up to the time of termination during the calendar year. Sick leave is permitted to be accrued with no maximum, and at termination, a maximum of 30 days (240 hours) will be paid for any accumulation of time over 120 days (960 hours). Compensatory time is permitted to be accrued to a maximum of 20 hours for Department Heads and 40 hours for the Police Chief, all of which will be paid to employees in full upon termination of employment.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The salary-related payments representing the employer's share of Social Security and Medicare taxes have been accrued. The vested annual leave is expensed as incurred in the appropriate funds. As of June 30, 2013 the total liability for accrued compensated absences recognized by the Town was \$107,651.

Unearned Revenues

In the governmental funds financial statements, taxes receivable that were not collected within the available period and charges for services collected in advance are recorded as unearned revenues. Revenues under reimbursable grant agreements are recognized in the period in which the qualified expenditures are made. Grant agreement funding received in advance and unexpended as of June 30, 2013 is reported as unearned revenues.

Net Position and Fund Balances

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents the net position of the Town that are not restricted for any project or other purpose. However, these funds may be constrained for specific projects or purposes in the fund financial statements.

In the fund financial statements, fund balances are classified in the following categories:

Nonspendable Fund Balance - This category represents amounts that are not in spendable form (such as inventory and long-term receivables) or are required to be maintained intact.

Restricted Fund Balance - This category represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Committed Fund Balance - This category represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned Fund Balance - This category represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned Fund Balance - This category represents amounts that are available for any purpose.

For the classification of fund balances, the Town considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balance, the Town considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.

For committed fund balance, the Town's highest level of decision-making authority is the Mayor and Commissioners. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is an ordinance.

For assigned fund balance, the Mayor and Commissioners are authorized to assign amounts to a specific purpose. The authorization policy is a formal motion.

Budgets and Budgetary Analysis

The Town adopts an annual budget for the General, Water, and Sewer Funds on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at the end of the budget year to the extent they have not been expended or lawfully encumbered. Budget amendments require approval of the Mayor and Commissioners, and there were several budget amendments approved by the Mayor and Commissioners during the year ended June 30, 2013. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingencies, and the

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

reported revenues and expenditures/expenses. Actual results could vary from the estimates that were used.

Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 15, 2013, the date the financial statements were available to be issued.

Note 2. Deposits and Investments

The deposits and investments held as of June 30, 2013 are as follows:

<u>Type</u>	<u>Rating/ Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Cash on Hand			\$ 960
Certificates of Deposit	0.43%	02/06/2014	1,000,000
Demand Deposits			4,069,520
Investments:			
Maryland Local Government Investment Pool	AAAm/0.08%	54 Days Average	<u>6,031,716</u>
Total Deposits and Investments			<u>\$ 11,102,196</u>

Reconciliation to Statement of Net Position:

Current Assets	
Pooled Cash and Cash Equivalents	
Unrestricted	\$ 3,524,351
Restricted	<u>2,507,365</u>
Total Pooled Cash and Cash Equivalents	6,031,716
Non-Pooled Cash and Cash Equivalents	
Certificates of Deposit	4,070,480
	<u>1,000,000</u>
	<u>\$ 11,102,196</u>

The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the state an investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the state treasurer, has been managed by a single financial institution. An MLGIP advisory committee of current participants reviews, on a quarterly basis, the activities of the fund and provides suggestions to enhance the pool.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Short-term investments of the pool are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market value are reported at estimated fair value as determined by management. The fair value of the pool is the same as the value of the pool shares. As of June 30, 2013, all pool holdings are in cash and cash equivalents.

Restricted cash and cash equivalents as of June 30, 2013 is comprised as follows:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Assets			
Pooled Cash and Cash Equivalents - Restricted			
Bay Restoration Collections	\$ -	\$ -	\$ 61,252
Community Activities	29,614	-	-
IKEA Contribution	200,000	-	-
Local Impact Grant Funding	2,049,052	1,609	164,625
Police Seizure Funds	<u>1,213</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,279,879</u>	<u>\$ 1,609</u>	<u>\$ 225,877</u>

Restricted assets are classified as current when they are restricted for payment of current liabilities. Otherwise, they are non-current in nature.

The Town is governed by the deposit and investment limitations of Maryland law. The Town's formal investment policy does not limit its investment choices beyond the limitations of state law as follows:

1. An obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
2. An obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
3. A repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer;
4. Bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission (SEC) or the Treasurer;

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

5. With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States SEC issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this paragraph;
6. Commercial paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States SEC, provided that such commercial paper may not exceed five percent of the total investments made by the Treasurer under this subsection;
7. Money market mutual funds that:
 - a. contain only securities of the organizations listed in items (1), (2), and (3) of this subsection;
 - b. are registered with the Securities and Exchange Commission under the Investment Company Act (ICA) of 1940, 15 U.S.C. § 80a-1 et seq., as amended; and
 - c. are operated in accordance with Rule 2A-7 of the ICA of 1940, 17 C.F.R. § 270.2A-7, as amended;
8. Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) defined under Article 95, § 22G of the Code that is administered by the Office of the State Treasurer;

Custodial Credit Risks

Deposits in financial institutions, reported as components of non-pooled cash and cash equivalents and certificates of deposit, had a bank balance of \$5,166,951 as of June 30, 2013, \$3,413,099 of which was exposed to custodial credit risk and was uninsured, but was collateralized by securities pledged and held by the financial institutions' trust departments or agents, not in the Town's name.

Interest Rate and Credit Risks

The Town's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as follows: a portion of the Town's investment portfolio can contain investments with maturities up to two years provided they are limited to direct federal government obligations and securities issued by the United States Government agencies. Maturities of investments held as of June 30, 2013 are provided in the previous schedule.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The Town's formal investment policy limits investments in banker's acceptances to those with a short-term rating of A1 from Standard and Poor's (S&P) Corporation and P1 from Moody's Investor Service, money market mutual funds to those with the highest possible rating from at least on nationally recognized statistical rating organization, and commercial paper to those with a minimum A1/P1 rating by at least one nationally recognized rating agency. Credit ratings on investment held as of June 30, 2013 are provided in the previous schedule.

Investments Concentration of Credit Risk

The Town's formal investment policy limits the amount of concentration in the following investments: 80% collateralized certificates of deposit (only through Maryland commercial banks), 40% banker's acceptances, 60% money market mutual funds, and 5% commercial paper. As of June 30, 2013, the Town had no concentration of credit risk.

Note 3. Capital Assets and Depreciation

A summary of governmental activities follows:

	Balance July 1, 2012, as <u>Restated</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance June 30, 2013
Governmental Activities					
Non-Depreciable Assets					
Construction in Progress	\$ -	\$ 145,041	\$ -	\$ -	\$ 145,041
Land and Land Rights	<u>2,470,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,470,599</u>
Total Non-Depreciable Assets	<u>2,470,599</u>	<u>145,041</u>	<u>-</u>	<u>-</u>	<u>2,615,640</u>
Depreciable Assets					
Buildings and Improvements	2,278,095	22,099	-	-	2,300,194
Equipment	854,900	165,299	98,416	-	921,783
Infrastructure	5,315,866	171,191	-	-	5,487,057
Vehicles	<u>662,468</u>	<u>76,672</u>	<u>34,887</u>	<u>-</u>	<u>704,253</u>
Total Depreciable Assets	<u>9,111,329</u>	<u>435,261</u>	<u>133,303</u>	<u>-</u>	<u>9,413,287</u>
Total Capital Assets	<u>11,581,928</u>	<u>580,302</u>	<u>133,303</u>	<u>-</u>	<u>12,028,927</u>
Accumulated Depreciation					
Buildings and Improvements	769,703	92,072	-	-	861,775
Equipment	640,624	64,577	90,030	-	615,171
Infrastructure	1,401,684	197,280	-	-	1,598,964
Vehicles	<u>503,309</u>	<u>48,367</u>	<u>34,887</u>	<u>-</u>	<u>516,789</u>
Total Accumulated Depreciation	<u>3,315,320</u>	<u>402,296</u>	<u>124,917</u>	<u>-</u>	<u>3,592,699</u>
Total Capital Assets, Net	<u>\$ 8,266,608</u>	<u>\$ 178,006</u>	<u>\$ 8,386</u>	<u>\$ -</u>	<u>\$ 8,436,228</u>

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense for the year ended June 30, 2013 charged to governmental activities was as follows:

General Government	\$ 45,462
Planning and Zoning	1,651
Public Safety	54,245
Public Works	104,450
Parks and Recreation	<u>196,488</u>
	<u>\$ 402,296</u>

Accumulated costs attributable to governmental activities projects included in construction in progress as of June 30, 2013 are as follows:

Shoreline Revetment Project	\$ 120,130
Rodgers Tavern Plaster Project	2,348
Police Department Building	6,585
Police Vehicle Improvements	<u>15,978</u>
	<u>\$ 145,041</u>

A summary of business-type activities follows:

	Balance July 1, 2012, as <u>Reclassified</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance June 30, <u>2013</u>
Business-Type Activities					
Non-Depreciable Assets					
Construction in Progress	\$ -	\$ -	\$ -	\$ -	\$ -
Land and Land Rights	<u>20,822</u>	-	-	-	<u>20,822</u>
Total Non-Depreciable Assets	<u>20,822</u>	-	-	-	<u>20,822</u>
Depreciable Assets					
Buildings and Improvements	40,566,058	12,501	-	-	40,578,559
Equipment	1,439,474	131,548	58,841	-	1,512,181
Infrastructure	1,922,970	55,537	-	-	1,978,507
Vehicles	<u>68,880</u>	-	-	-	<u>68,880</u>
Total Depreciable Assets	<u>43,997,382</u>	<u>199,586</u>	<u>58,841</u>	-	<u>44,138,127</u>
Total Capital Assets	<u>44,018,204</u>	<u>199,586</u>	<u>58,841</u>	-	<u>44,158,949</u>
Accumulated Depreciation					
Buildings and Improvements	7,469,211	838,675	-	-	8,307,886
Equipment	898,683	81,038	48,390	-	931,331
Infrastructure	687,848	42,352	-	-	730,200
Vehicles	<u>54,272</u>	<u>10,799</u>	-	-	<u>65,071</u>
Total Accumulated Depreciation	<u>9,110,014</u>	<u>972,864</u>	<u>48,390</u>	-	<u>10,034,488</u>
Total Capital Assets, Net	<u>\$ 34,908,190</u>	<u>\$ (773,278)</u>	<u>\$ 10,451</u>	<u>\$ -</u>	<u>\$ 34,124,461</u>

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense for the year ended June 30, 2013 charged to business-type activities for the Water Fund and Sewer Fund totaled \$385,404 and \$587,460, respectively.

Note 4. Long-Term Debt

Bonds and Loans Payable as of June 30, 2013 consists of the following:

Bonds Payable

CDA Infrastructure Financing Bonds - 2004 Series B

\$300,000 authorized and issued. Remaining principal to be repaid in annual installments of \$15,000 and \$20,000 through May 2024 with semi-annual interest payments with remaining interest rates ranging from 3.125% to 4.2%. \$ 190,000

Water System Bonds of 1978

\$79,100 authorized and issued. Semi-annual payments of \$2,336 are to be paid through January 2019 including interest at 5.00%. 23,082

CDA Infrastructure Financing Bonds - 2002 Series A

\$474,000 authorized and issued. Remaining principal to be repaid in annual installments through May 2022 ranging from \$24,200 to \$35,500 with semi-annual interest payments with remaining interest rates ranging from 4.25% to 4.8%. 263,700

Sewer System Bond of 1984

\$857,000 authorized and issued. Semi-annual payments of \$25,299 are to be paid through February 2024 including interest at 5.00%. 422,461

Total Bonds Payable899,243

Loans Payable

Water Quality Act Loan of 2007

\$11,534,299 authorized and issued. Interest at 0.4%, paid semi-annually. Principal to be repaid in annual payments through February 2037 ranging from \$399,126 to \$435,764. 9,952,636

Water Quality Act Loan of 2008

\$5,923,965 authorized and issued. Interest at 1.1%, paid semi-annually. Remaining principal to be repaid in annual payments through February 2029 ranging from \$293,376 to \$341,933. 5,061,850

Total Loans Payable ...15,014,486

Total Bonds and Loans Payable \$ 15,913,729

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

All bonds and loans payable are secured by the credit and taxing power of the Town.

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

<u>Type of Debt</u>	Balance July 1, 2012	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2013	Due Within <u>One Year</u>
Governmental Activities					
Bonds Payable					
2004 CDA Infrastructure Bonds	\$ 205,000	\$ -	\$ 15,000	\$ 190,000	\$ 15,000
Accrued Compensated Absences	<u>53,705</u>	<u>9,149</u>	<u>-</u>	<u>62,854</u>	<u>680</u>
Total Governmental Activities	<u>\$ 258,705</u>	<u>\$ 9,149</u>	<u>\$ 15,000</u>	<u>\$ 252,854</u>	<u>\$ 15,680</u>
Business-Type Activities					
Bonds and Loans Payable					
1978 Water System Bonds	\$ 26,473	\$ -	\$ 3,391	\$ 23,082	\$ 3,563
1984 Sewer System Bond	450,871	-	28,410	422,461	29,846
2002 CDA Infrastructure Bonds	286,700	-	23,000	263,700	24,200
2007 Water Quality Act Loan	10,350,171	-	397,535	9,952,636	399,126
2008 Water Quality Act Loan	<u>5,352,034</u>	<u>-</u>	<u>290,184</u>	<u>5,061,850</u>	<u>293,376</u>
Total Bonds and Loans Payable	16,466,249	-	742,520	15,723,729	750,111
Accounts Payable and Accrued Expenses	84,595	-	21,149	63,446	21,148
Accrued Compensated Absences	<u>37,890</u>	<u>6,907</u>	<u>-</u>	<u>44,797</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 16,588,734</u>	<u>\$ 6,907</u>	<u>\$ 763,669</u>	<u>\$ 15,831,972</u>	<u>\$ 771,259</u>

Accrued compensated absences in governmental activities are liquidated from general revenues in the General Fund. Other long-term liabilities in business-type activities are liquidated from general revenues in the respective Water and Sewer Funds.

Interest and related costs incurred for governmental and business-type activities for the year ended June 30, 2013 was \$7,900 and \$171,774, respectively, all of which was expensed.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The principal and interest requirements to maturity of the bonds and loans payable debt are as follows:

Years Ending June 30	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 15,000	\$ 7,244	\$ 750,111	\$ 129,511
2015	15,000	6,756	757,825	121,970
2016	15,000	6,250	765,267	114,222
2017	15,000	5,740	773,193	106,330
2018	15,000	5,215	781,750	98,127
2019 - 2023	95,000	16,315	3,982,232	361,812
2024 - 2028	20,000	840	3,812,513	175,275
2029 - 2033	-	-	2,441,453	62,248
2034 - 2037	-	-	<u>1,659,385</u>	<u>16,148</u>
	<u>\$ 190,000</u>	<u>\$ 48,360</u>	<u>\$ 15,723,729</u>	<u>\$ 1,185,643</u>

Note 5. Interfund Transactions

All interfund receivable/payable balances resulted from the time lag between the dates that (1) interfund good and services are provided and reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances as of June 30, 2013 consisted the following, all of which are expected to be repaid within the following year and related to timing differences due to various centralized payable and receipt processing functions:

<u>Due to</u>	<u>Due from</u>			<u>Total</u>
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	
General Fund	\$ -	\$ 18,189	\$ -	\$ 18,189
Non-Major Governmental Fund	3,839	-	-	3,839
Water Fund	-	-	31,996	31,996
Sewer Fund	<u>1,859</u>	<u>-</u>	<u>-</u>	<u>1,859</u>
Total	<u>\$ 5,698</u>	<u>\$ 18,189</u>	<u>\$ 31,996</u>	<u>\$ 55,883</u>

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 6. Net Position and Fund Balances

Nonspendable fund balance in the General Fund as of June 30, 2013 is limited to prepaid expenses and deposits totaling \$12,344.

The following is a summary of restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2013:

Community Activities	\$ 29,614
IKEA Contributions	200,000
Local Impact Grant Funding	1,677,667
Police Seizure Funds	<u>1,213</u>
	<u>\$ 1,908,494</u>

Community Activities - Accumulation of contributions and funding restricted for use in community-related activities.

IKEA Contribution - Contribution of funds restricted for use in support of the Perryville Volunteer Fire Department and/or the improvement, enhancement, and/or expansion of recreation and parks programs and facilities in the Town.

Local Impact Grant Funding - State-distributed Video Lottery Terminal (VLT) facility revenues, in the form of local impact grants, restricted based on the Town’s approved spending plan.

Police Seizure Funds - Local law enforcement seized funds restricted until court awarded.

The following is a summary of assigned fund balance in the General Fund as of June 30, 2013:

Parade Account	\$ 19,390
Prior Public Works Building Demolition	<u>7,827</u>
	<u>\$ 27,217</u>

Note 7. Property Taxes

From the effective date of the budget, the amount stated thereon as the amount to be raised by property taxes shall constitute a determination of the amount of the tax levies in the corresponding tax year. The Town’s real property taxes are levied each July 1 on the assessed value listed as of July 1 for all real property located in the Town. Real property taxes are due in one installment between July 1 and September 30, with 2% discount if paid in full by July 31, and become delinquent after October 1. For those qualifying for semi-annual billing, real property taxes are due in two equal installments, half between July 1 and September 30, with

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

2% discount if first half paid in full by July 31, and half between October 1 and December 31. Business personal property taxes are due within 30 days of billing, which occurs as assessment information is received by the State. Interest accrues on all delinquent accounts at a rate of 1% per month until paid. The tax rates for real and business personal property for the year ended June 30, 2013 were \$0.3144 and \$0.94, respectively, per \$100 assessed property value.

Note 8. Lease Agreements

The Town has entered into communication tower lease agreements, which are expected to provide the following future minimum receipts for the years ending June 30:

2014	\$ 98,745
2015	98,582
2016	99,855
2017	71,422
2018	36,704
Thereafter	<u>6,389</u>
	<u>\$ 411,697</u>

All lease agreements have various consecutive renewal options at the lessee's discretion, and the future minimum receipts noted above are limited to the current renewal periods under the relating non-cancelable agreements. Lease revenues generated for the year ended June 30, 2013 were \$92,783, all of which were recognized in the Water Fund.

Note 9. Defined Contribution Plan

The Town, in accordance with the Mayor and Commissioners' approval, offers a Savings Incentive Match Plan for Employees Individual Retirement Account (SIMPLE IRA) defined contribution plan to all of its employees with at least \$5,000 annual compensation in accordance with the Internal Revenue Code. The Town matches an employee's elective contribution to the plan up to a maximum of 3% of gross pay, based on annual approval by the Mayor and Commissioners. The Town's contribution for each employee (and interest allocated to the employee's account) is fully vested at contribution. The Town contributed \$50,850 to the plan during the year ended June 30, 2013.

All amounts of compensation deferred under the plans and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Plan Administrator, Hartford Mutual, is the trustee of the investments.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits Plan

A. Plan Description and Funding Policies

The Town administers a single-employer defined benefit healthcare plan for the employees of the Town, which provides healthcare premium reimbursement postemployment benefits (OPEB) for eligible retirees. For full-time employees who retire with at least 30 years of service, the Town will contribute up to \$235 per month towards reimbursement of retiree-incurred health insurance for the lifetime of the retiree. For employees who retire on or after age 55 with at least 20 years of service but less than 30, the Town will contribute up to \$165 per month towards reimbursement of retiree-incurred health insurance for the lifetime of the retiree. Benefit provisions are established through Resolution 2005-01 as approved by the Mayor and Commissioners on January 4, 2005. The plan does not issue a publically available financial report.

Membership of the plan consisted of 46 participants, 44 of which are active plan members and two are retirees receiving benefits, as of June 30, 2013.

The plan is unfunded, with premium reimbursement payments made by the Town directly to the retirees on a pay-as-you-go basis. For the year ended June 30, 2013, the Town reimbursed premium costs of \$5,640 to the retirees. There are no retiree contributions to the plan.

B. Annual OPEB Cost and Net OPEB Obligation

The Town's annual OPEB cost is calculated based on the *annual required contribution of the employer (ARC)*, which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost, the estimated actuarial amount contributed to the plan, and changes in the Town's governmental activities net OPEB obligation for the year ended June 30, 2013:

Annual Required Contribution	\$ 25,035
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	<u>-</u>
Annual OPEB Cost	25,035
Contributions Made	<u>5,040</u>
Increase (Decrease) in Net OPEB Obligation	19,995
Net OPEB Obligation - Beginning of Year	<u>-</u>
Net OPEB Obligation - End of Year	<u><u>\$ 19,995</u></u>

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The net OPEB obligation of \$19,995 as of June 30, 2013 has been accrued as follows:

Governmental Activities	\$ 14,091
Business-Type Activities	
Water Fund	2,900
Sewer Fund	<u>3,004</u>
	<u>\$ 19,995</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2013:

<u>Trend Information</u>			
Years Ended <u>June 30,</u>	Annual OPEB <u>Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2013	\$ 25,035	20.13%	\$ 19,995

C. Funded Status and Funding Progress

As of the July 1, 2012 valuation, the actuarial accrued liability for benefits was \$153,683, all of which was unfunded, the covered payroll (annual payroll of active employees covered by the plan) was \$2,055,518, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.48%.

D. Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Town and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

For the July 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used, based on assumption that 50% of eligible employees will retire upon attainment of 62 years of age, and that all remaining employees will retire upon attainment of 65 years of age. The valuation assumes that 90% of eligible retirees will elect coverage in the plan.

The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the Town's General Fund assets, and an annual healthcare cost trend rate of 7.5% initially, reduced by 0.5% decrements to a rate of 5.5% in 2016. Both rates included a 2.5% annual salary increase for all employees. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at the July 1, 2012 valuation was 30 years.

Note 11. Reconciliations of Operating Loss to Net Cash Provided by Operating Activities

	Water <u>Fund</u>	Sewer <u>Fund</u>	Total Proprietary <u>Funds</u>
Operating Loss	\$ (48,549)	\$ (412,681)	\$ (461,230)
Adjustment to Reconcile Operating Loss to Net Cash Provided by Operating Activities			
Depreciation	385,404	587,460	972,864
(Increase) Decrease in Assets			
Accounts Receivable	(12,136)	93,011	80,875
Unbilled Services	(1,157)	(6,627)	(7,784)
Increase (Decrease) in Liabilities			
Accounts Payable and Accrued Expenses	(17,738)	5,142	(12,596)
Accrued Payroll and Related Benefits	2,329	988	3,317
Due to Other Governments	-	35,206	35,206
Accrued Compensated Absences	2,676	4,231	6,907
Accrued Other Postemployment Benefits	<u>2,900</u>	<u>3,004</u>	<u>5,904</u>
Net Cash Provided by Operating Activities	<u>\$ 313,729</u>	<u>\$ 309,734</u>	<u>\$ 623,463</u>

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 12. Commitments and Contingencies

The Town participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town may be required to reimburse the grantor government. As of June 30, 2013, significant amounts of grant expenditures have not been audited by the appropriate grantor government, but the Town believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual funds or the overall financial position of the Town.

The Town is committed under the following contracts for construction projects as of June 30, 2013:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Outstanding at June 30, 2013</u>
Shoreline Revetment	<u>\$ 360,425</u>	<u>\$ 240,295</u>
Police Station Building	<u>\$ 102,570</u>	<u>\$ 95,585</u>
Road Patching and Paving	<u>\$ 120,886</u>	<u>\$ 120,886</u>

Through Resolution 2002-11, the Town is committed to rebate \$28,500 annually in Enterprise Zone tax credits provided by the State of Maryland to a wholesale company within the Town limits beginning July 1, 2003 until \$427,500 in Enterprise Zone tax credits received by the Town have been remitted to the company. The remittances to the company are contingent on receipt of the Enterprise Zone tax credits in each tax levy year. As of June 30, 2013, \$142,500 remains to be remitted from future tax levy year property tax credits.

Note 13. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Town purchases commercial insurance for these types of losses, including workers' compensation and employee health and accident coverage. The Town currently reports all of its risk management activities in the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Settled claims resulting from these risks have not exceeded insurance coverage for each of the past three years.

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 14. Environmental Concerns

The Town operates a sewer facility, and has above-ground storage tanks for its diesel and other fuel. If a leak or contamination occurred, the Town could become liable for the cost to clean up the spill.

Note 15. Concentrations and Economic Dependencies

The Town provides various services to its residents. The Town is located in Cecil County, Maryland. Credit is granted to its residents for taxes, water and sewer bills. The Town may place a lien on any property associated with unpaid taxes and water and sewer services; therefore, an allowance for uncollectible amounts is not considered necessary.

The Town receives a substantial portion of its revenues in the General Fund from a wholesale company. Revenues from this company for the year ended June 30, 2013 were \$1,463,962, which represented 29% of the Town's General Fund revenues. The Town also receives a substantial portion of its operating revenues in the Sewer Fund from a local hospital. Operating revenues from the hospital for the year ended June 30, 2013 were \$250,781, which represented 25% of the Town's Sewer Fund operating revenues.

Note 16. Prior Period Adjustments

In the financial statements for the year ended June 30, 2012, management determined that a reserve for reed bed cleanup liability accrued did not meet the recognition criteria as an expense in prior years. The net position for the Sanitary Sewer Fund and business-type activities as of June 30, 2012 has been restated to reflect this correction. The restatement resulted in the following changes:

	<u>Sewer Fund</u>	<u>Business-Type Activities</u>
Net Position as of June 30, 2012, as Originally Stated	\$15,587,176	\$20,518,909
Correction for Reporting of Reserve for Reed Bed Cleanup Liability	<u>105,000</u>	<u>105,000</u>
Net Position as of June 30, 2012, as Restated	<u>\$15,692,176</u>	<u>\$20,623,909</u>

In the financial statements for the year ended June 30, 2012, accrued compensated absences were incorrectly reported in the General Fund, all of which met the criteria to be classified as non-current liabilities in governmental activities. In addition, an interfund sale of land was incorrectly reported at the sales price and not limited to the original acquisition cost, with the resulting difference recognized as additional consideration expense on the sale. Finally,

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NOTES TO BASIC FINANCIAL STATEMENTS

earned income taxes and Enterprise Zone Real Property Tax Credit revenues were not properly recognized for the year ended June 30, 2012 based on application of “available” and earned revenue recognition criteria as discussed in Note 1. The fund balance for the General Fund and net position of governmental activities as of June 30, 2012 have been restated to reflect these corrections. The restatements resulted in the following changes:

	<u>General Fund</u>	<u>Governmental Activities</u>
Fund Balance/Net Position as of June 30, 2012, as Originally Stated	\$ 7,731,087	\$ 15,845,666
Correction for Reporting of Non-Current Accrued Compensated Absences	53,705	-
Correction for Reporting of Earned Income Taxes Receivable Earned and “Available”	33,765	33,765
Correction for Reporting of Amounts Due from Other Governments Earned	-	60,732
Correction for Reporting of Interfund Land Sale	<u>-</u>	<u>(52,971)</u>
Fund Balance/Net Position as of June 30, 2012, as Restated	<u>\$ 7,818,557</u>	<u>\$ 15,887,192</u>

Note 17. New Governmental Accounting Standards Board Pronouncements

The GASB has issued several pronouncements prior to the year ended June 30, 2013 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the Town as of July 1, 2013. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, will be effective for the Town as of July 1, 2013. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance resulting from issuance of other recent pronouncements. The standard amends requirements for reporting of risk financing activities previously limited to the General Fund and Internal Service Fund type, and

TOWN OF PERRYVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

modifies guidance in relation to accounting for operating lease payments that vary from straight-line basis and for loan-servicing activities investments and servicing fees.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, will be effective for the Town as of July 1, 2014. The objective of this statement is to improve financial reporting by state and local governmental pension plans by requiring enhanced note disclosures and schedules of required supplementary information and promoting more transparency and consistency amongst state and local governmental pension plan financial statements.

GASB Statement No. 68, *Accounting and Reporting for Pensions*, will be effective for the Town as of July 1, 2015. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions, including improving information provided by state and local government employers about financial support for pensions that is provided by other entities, by requiring enhanced note disclosures and schedules of required supplementary information and promoting more transparency and consistency amongst state and local government financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, will be effective for the Town as of July 1, 2014. The objective of this statement is to improve accounting and financial reporting by state and local governments for combinations in the governmental environment, and improve the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination agreements in when they engage and for disposals of government operations through transfer or sale.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, will be effective for the Town as of July 1, 2014. The objective of this statement is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. The statement also will enhance the information disclosed about a government's obligations and risk exposure from extending such guarantees, and assist financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about such guaranteed obligations.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PERRYVILLE, MARYLAND
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes				
Local Property Taxes	\$ 2,833,032	\$ 2,833,032	\$ 3,071,842	\$ 238,810
Local Income and Other Taxes	267,388	267,388	367,404	100,016
Licenses and Permits	36,500	36,500	68,575	32,075
Intergovernmental				
Federal	-	9,660	9,660	-
State	198,943	262,797	368,626	105,829
County - Local Impact Grant	1,763,717	1,830,810	972,023	(858,787)
County - Other	175,716	175,716	178,689	2,973
Charges for Services	142,800	142,800	22,112	(120,688)
Fines and Forfeitures	2,000	2,000	1,124	(876)
Interest Income	9,534	9,534	15,948	6,414
Miscellaneous	6,500	17,765	38,252	20,487
TOTAL REVENUES	5,436,130	5,588,002	5,114,255	(473,747)
EXPENDITURES				
General Government	1,041,065	1,097,397	771,152	326,245
Planning and Zoning	296,741	299,591	183,136	116,455
Public Safety				
Police	1,300,622	1,319,984	1,170,205	149,779
Volunteer Fire Company	52,000	112,000	111,095	905
Public Works				
Highways and Streets	462,736	477,201	659,340	(182,139)
Solid Waste Collection	271,610	271,610	256,351	15,259
Parks and Recreation	222,660	236,242	199,294	36,948
Debt Service				
Principal	15,000	15,000	15,000	-
Interest	7,977	7,977	7,900	77
Capital Outlays	1,765,719	1,957,489	573,509	1,383,980
TOTAL EXPENDITURES	5,436,130	5,794,491	3,946,982	1,847,509
NET CHANGES IN FUND BALANCES	-	(206,489)	1,167,273	1,373,762
Fund Balances - Beginning of Year, as Restated	7,818,557	7,818,557	7,818,557	-
FUND BALANCES - END OF YEAR	\$ 7,818,557	\$ 7,612,068	\$ 8,985,830	\$ 1,373,762

TOWN OF PERRYVILLE, MARYLAND
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT
BENEFITS (OPEB) PLAN
FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
7/1/2012	\$ -0-	\$ 153,683	\$ 153,683	0.00%	\$ 2,055,518	7.48%

OTHER INFORMATION

TOWN OF PERRYVILLE, MARYLAND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2010, 2011, 2012, AND 2013

	2010	2011	2012	2013
REVENUES				
Taxes				
Local Property Taxes	\$ 2,485,068	\$ 2,943,275	\$ 3,097,331	\$ 3,071,842
Local Income and Other Taxes	363,328	354,253	362,007	367,404
Licenses and Permits	25,895	47,778	69,830	68,575
Intergovernmental				
Federal	430,422	528,779	275,429	9,660
State	361,363	309,137	305,552	368,626
County - Local Impact Grant	-	1,068,939	1,510,947	972,023
County - Other	142,859	243,687	186,698	178,689
Charges for Services	194,976	123,409	28,966	22,112
Fines and Forfeitures	-	1,697	4,446	1,124
Interest Income	5,603	8,801	10,528	15,948
Miscellaneous	135,677	3,726	22,048	38,252
TOTAL REVENUES	4,145,191	5,633,481	5,873,782	5,114,255
EXPENDITURES				
General Government	489,698	496,563	576,176	771,152
Planning and Zoning	324,636	246,711	190,463	183,136
Public Safety				
Police	936,452	1,024,400	1,106,718	1,170,205
Volunteer Fire Company	32,537	31,118	51,106	111,095
Public Works				
Highways and Streets	400,108	460,721	694,166	659,340
Solid Waste Collection	240,407	233,064	220,143	256,351
Parks and Recreation	187,901	157,243	167,408	199,294
Debt Service				
Principal	22,000	22,000	22,500	15,000
Interest	10,183	9,475	10,005	7,900
Capital Outlays	893,084	1,617,230	1,328,596	573,509
TOTAL EXPENDITURES	3,537,006	4,298,525	4,367,281	3,946,982
NET CHANGES IN FUND BALANCES	608,185	1,334,956	1,506,501	1,167,273
Fund Balances - Beginning of Year, as Restated	4,368,915	4,977,100	6,312,056	7,818,557
FUND BALANCES - END OF YEAR	\$ 4,977,100	\$ 6,312,056	\$ 7,818,557	\$ 8,985,830

TOWN OF PERRYVILLE, MARYLAND
SCHEDULES OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2010, 2011, 2012, AND 2013

	2010	2011	2012	2013
OPERATING REVENUES				
Charges for Services	\$ 1,681,299	\$ 1,725,960	\$ 1,902,454	\$ 1,941,193
Reading and Related Fees	36,281	21,489	20,362	11,529
TOTAL OPERATING REVENUES	1,717,580	1,747,449	1,922,816	1,952,722
OPERATING EXPENSES				
Contracted Services	402,406	199,195	99,732	21,151
Depreciation	680,960	953,787	964,379	972,864
Insurance	35,495	38,180	52,049	62,383
Other Administrative Expenses	74,388	99,737	63,814	66,120
Payroll Taxes and Fringe Benefits	127,776	148,547	160,398	195,226
Repairs and Maintenance	77,706	113,386	130,077	111,187
Salaries and Wages	504,867	506,045	557,063	660,301
Supplies and Materials	65,099	46,879	45,428	68,303
Utilities	235,803	256,470	215,527	256,417
TOTAL OPERATING EXPENSES	2,204,500	2,362,226	2,288,467	2,413,952
OPERATING INCOME (LOSS)	(486,920)	(614,777)	(365,651)	(461,230)
NON-OPERATING REVENUES				
(EXPENSES)				
Connection Charges	1,684,500	36,400	-	110,000
Gain (Loss) on Disposal of Assets	(184,285)	-	52,971	61,547
Interest Income	10,256	4,888	3,231	4,207
Rental Income	68,183	79,215	79,378	92,783
Interest Expense	(171,836)	(196,310)	(185,048)	(171,774)
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,406,818	(75,807)	(49,468)	96,763
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	919,898	(690,584)	(415,119)	(364,467)
Capital Contributions - Local Income Grant	-	301,002	354,225	228,005
Capital Contributions - Other	3,204,676	917,416	447,786	182,473
CHANGES IN NET POSITION	4,124,574	527,834	386,892	46,011
Net Position - Beginning of Year, as Restated	15,584,609	19,709,183	20,237,017	20,623,909
NET POSITION - END OF YEAR	\$ 19,709,183	\$ 20,237,017	\$ 20,623,909	\$ 20,669,920