

TOWN OF CHARLESTOWN
AUDIT REPORT
JUNE 30, 2010

TOWN OF CHARLESTOWN

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Town Council
Town of Charlestown

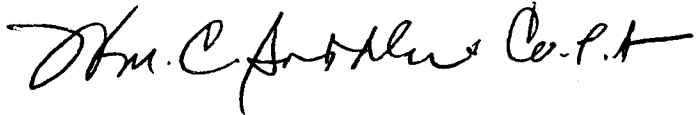
We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Charlestown as of and for the year ended June 30, 2010, which collectively comprise the Town of Charlestown's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Charlestown's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Charlestown as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Mayor and Town Council
Town of Charlestown

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 35 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



WM. C. SADDLER & CO., P.A.
September 13, 2010

TOWN OF CHARLESTOWN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010

As management of the Town of Charlestown, Maryland ("the Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010. The Management's Discussion and Analysis (MD&A) is best understood if read in conjunction with the Town's basic financial statements.

Financial Highlights

The assets of the Town exceeded its liabilities at the close of the 2010 fiscal year by \$5,343,904 (net assets). Approximately 66% of this amount is attributable to the Utility Fund. Of the total net assets, \$1,286,275 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors (60% of this amount is attributable to the Utility Fund), and \$4,046,129 is invested in capital assets, net of related debt. As of June 30, 2010, the Town's governmental funds reported combined ending fund balances of \$519,938. Of this total amount, \$508,438 or 98% is available to meet the Town's current and future needs and is unreserved and undesignated fund balance. As of June 30, 2010, unreserved, undesignated fund balance for the General Fund (primary operating fund) was \$474,245 or 64% of total General Fund expenditures. The Town's total long-term debt decreased by (\$36,145) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business. The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, and parks and recreation. The business-type activities of the Town include Water and Sewer operations.

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 two categories: governmental funds and proprietary funds.

Governmental funds. *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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the 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 so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and 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 individual governmental funds, the General and the Special Revenue Funds.

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statements of Revenues, Expenditures and Changes in Fund Balances for both of the governmental funds. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 12-15. The budgetary comparison can be found as other required supplementary information on pages 35-37.

Proprietary funds. The Town maintains one proprietary-type fund: an enterprise fund. *Enterprise funds* are used to report the same functions presented *as business-type activities* in the governmental-wide financial statements. The Town uses an enterprise fund to account for its utilities (water and sewer) activities. The basic proprietary fund financial statements can be found on pages 16 - 19 of this report.

Summary of significant accounting policies and notes to the financial statements.

The summary and notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The summary and notes are part of the basic financial statements and can be found on pages 20- 34 of this report.

Other information. In addition to the basic financial statements and accompanying summary and notes, this report also presents the budgetary comparison for the general fund as *required supplementary information* on pages 35 -37.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the Town, assets exceeded liabilities by \$5,343,904 at the close of the current fiscal year. The Town of Charlestown's net assets are divided into three categories - invested in capital assets, net of related debt, restricted and unrestricted net assets. The largest portion of the Town's net assets (76%) reflects its investment in capital assets (e.g., land, improvements, buildings, machinery, equipment, vehicles, and sewer system), less accumulated depreciation and any unmatured debt 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 these liabilities. Restricted net assets are resources that are subject to external restrictions on how they may be used.

For the fiscal year ended June 30, 2010, the Town reported positive balances in all categories of net assets, for the Town as a whole.

	Net Assets						Total Percentage Change 2010-2009
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2010	2009	2010	2009	2010	2009	
Assets							
Current and other assets	\$ 545,318	\$ 675,623	\$ 821,965	\$ 921,089	\$ 1,367,283	\$ 1,596,712	-14.37%
Capital assets	1,691,220	1,794,566	3,566,770	3,105,686	5,257,990	4,900,252	7.30%
Total assets	2,236,538	2,470,189	4,388,735	4,026,775	6,625,273	6,496,964	1.97%
Liabilities							
Long-term liabilities outstanding	136,783	124,098	773,021	800,213	909,804	924,311	-1.57%
Other liabilities	300,245	333,112	71,320	61,683	371,565	394,795	-5.88%
Total liabilities	437,028	457,210	844,341	861,896	1,281,369	1,319,106	-2.86%
Net Assets							
Invested in capital assets, net of related debt	1,279,572	1,361,398	2,766,557	2,279,181	4,046,129	3,640,579	11.14%
Restricted	11,500	11,500			11,500	11,500	0.00%
Unrestricted	508,438	640,081	777,837	885,698	1,286,275	1,525,779	-15.70%
Total net assets	\$ 1,799,510	\$ 2,012,979	\$ 3,544,394	\$ 3,164,879	\$ 5,343,904	\$ 5,177,858	3.21%

The following table indicates the changes in net assets for governmental and business-type activities:

	Changes in Net Assets						Total Percentage Change 2010-2009
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2010	2009	2010	2009	2010	2009	
Revenues							
Program revenues:							
Charges for services	\$ 31,806	\$ 47,434	\$ 417,002	\$ 305,743	\$ 448,808	\$ 353,177	27.08%
Operating Grants and Contributions	41,108	551,237			41,108	551,237	-92.54%
Capital Grants and Contributions	12,455	35,585			12,455	35,585	-65.00%
General revenues:							
Property and other taxes	401,127	370,844			401,127	370,844	8.17%
Rent income	57,165	52,145	47,322	47,322	104,487	99,467	5.05%
Miscellaneous	15,264	1,530			15,264	1,530	897.65%
Loss on disposal of asset Capital Asset Donation			583,997	300,000	300,000	300,000	
Unrestricted investment earnings	5,220	13,817	3,181	11,938	8,401	25,755	-67.38%
Total revenues	<u>564,145</u>	<u>1,072,592</u>	<u>1,051,502</u>	<u>665,003</u>	<u>1,331,650</u>	<u>1,737,595</u>	-23.36%
Expenses							
General government	474,564	374,455			474,564	374,455	26.73%
Parks and recreation	110,151	534,582			110,151	534,582	-79.39%
Public safety	77,422	61,399			77,422	61,399	26.10%
Public works	115,477	147,832			115,477	147,832	-21.89%
Water and sewer			671,987	669,674	671,987	669,674	0.35%
Total expenses	<u>777,614</u>	<u>1,118,268</u>	<u>671,987</u>	<u>669,674</u>	<u>1,449,601</u>	<u>1,787,942</u>	-18.92%
Increase in net assets	(213,469)	(45,676)	379,515	(4,671)	166,046	(50,347)	-429.80%
Net assets, beginning	<u>2,012,979</u>	<u>2,058,655</u>	<u>3,164,879</u>	<u>3,169,550</u>	<u>5,177,858</u>	<u>5,228,205</u>	-0.96%
Net assets, ending	<u>\$ 1,799,510</u>	<u>\$ 2,012,979</u>	<u>\$ 3,544,394</u>	<u>\$ 3,164,879</u>	<u>\$ 5,343,904</u>	<u>\$ 5,177,858</u>	<u>3.21%</u>

Governmental activities: General revenues for the governmental activities were \$478,776, while total expenses, net of charges for services were \$692,245. The loss in net assets for governmental activities was (\$213,469).

Capital Assets and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2010, was \$5,257,990 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery, equipment, furniture, fixtures, vehicles, and water and sewer system.

The following table of the Town's capital assets is listed below. Additional information can be found in Note 4 on page 30 of this report.

Capital Assets (net of depreciation)			
	Governmental	Business-Type	Total
	Activities	Activities	
Land	\$ 420,702	\$ -	\$ 420,702
Historic Building and Artifacts	220,000		220,000
Building and improvements	1,003,762	-	1,003,762
Machinery and equipment	46,755		46,755
Water and sewer systems	-	3,566,770	3,566,770
Total net assets, net of depreciation	\$ 1,691,219	\$ 3,566,770	\$ 5,257,989

Debt administration. At June 30, 2010, the Town had a note payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds totaling \$723,400. There was also a note payable to Maryland Department of Natural Resources for \$76,813. A note payable for the December 2008 purchase of the Historic Cecil Hotel in the amount of \$131,375. A new project financing loan payable to the Maryland Department of Natural Resources for the September 2009 financing of the Stone Warf Project in the amount of \$11,413 which represents the amount spent and disbursed to the Town.

Outstanding Debt		
	Business-Type	Total
	Activities	
Total bonds payable	\$ 800,213	\$ 800,213

Requests for Information

This financial report is designed to provide a general overview of the Town of Charlestown's finances 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 directed to Wib Pumpaly, Town Administrator, Town of Charlestown, 241 Market Street, P.O. Box 154, Charlestown, MD, 21914, or send an e-mail to townadmin21914@comcast.net.

TOWN OF CHARLESTOWN
STATEMENT OF NET ASSETS
JUNE 30, 2010

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
ASSETS			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 677,673	\$ 589,871	\$ 1,267,544
Service Charges Receivable		67,928	67,928
Accounts Receivable	11,171		11,171
Due from Other Governments	1,491		1,491
Internal Balances	(145,017)	145,017	0
Other Assets		19,149	19,149
	545,318	821,965	1,367,283
TOTAL CURRENT ASSETS			
CAPITAL ASSETS			
Land, Building & Equipment	3,364,453	5,478,421	8,842,874
Less: Accumulated Depreciation	(1,673,233)	(1,911,651)	(3,584,884)
	1,691,220	3,566,770	5,257,990
	2,236,538	4,388,735	6,625,273
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable & Accrued Expenses	25,380	44,128	69,508
Unearned Revenue	268,860		268,860
Current Portion - Bond Payable		27,192	27,192
Current Portion - Note Payable	6,005		6,005
	300,245	71,320	371,565
TOTAL CURRENT LIABILITIES			
NONCURRENT LIABILITIES			
Bonds Payable, Net of Current Portion		773,021	773,021
Note Payable, Net of Current Portion	136,783		136,783
	437,028	844,341	1,281,369
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,279,572	2,766,557	4,046,129
Restricted	11,500		11,500
Unrestricted	508,438	777,837	1,286,275
	1,799,510	3,544,394	5,343,904
	\$ 1,799,510	\$ 3,544,394	\$ 5,343,904

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 474,564	\$ 31,806	\$ 34,101	\$ 10,000	\$ (398,657)	\$	(398,657)
Public Safety	77,422				(77,422)		(77,422)
Public Works	115,477		7,007		(108,470)		(108,470)
Parks & Recreation	110,151			2,455	(107,696)		(107,696)
TOTAL GOVERNMENTAL ACTIVITIES	777,614	31,806	41,108	12,455	(692,245)		(692,245)
BUSINESS-TYPE ACTIVITIES							
Water & Sewer System	671,987	417,002				\$ (254,985)	(254,985)
TOTAL BUSINESS -TYPE ACTIVITIES	671,987	417,002	0	0	0	(254,985)	(254,985)
TOTAL PRIMARY GOVERNMENT	\$ 1,449,601	\$ 448,808	\$ 41,108	\$ 12,455	(692,245)	(254,985)	(947,230)
GENERAL REVENUES							
Taxes:							
Property					334,818		334,818
Income & Other					66,309		66,309
Rental Income					57,165	47,322	104,487
Miscellaneous					15,264		15,264
Capital Asset Donation						583,997	583,997
Investment Income					5,220	3,181	8,401
TOTAL GENERAL REVENUES					478,776	634,500	1,113,276
CHANGE IN NET ASSETS					(213,469)	379,515	166,046
NET ASSETS - BEGINNING					2,012,979	3,164,879	5,177,858
NET ASSETS - ENDING					\$ 1,799,510	\$ 3,544,394	\$ 5,343,904

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>GENERAL FUND</u>	<u>SPECIAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS			
Cash & Cash Equivalents	\$ 468,388	\$ 209,285	\$ 677,673
Interfund Receivables	215,135		215,135
Accounts Receivable	1,510	3,100	4,610
Property Taxes Receivable	6,561		6,561
Due from Other Governments	1,491		1,491
Due from Other Funds		50,993	50,993
TOTAL ASSETS	\$ <u>693,085</u>	\$ <u>263,378</u>	\$ <u>956,463</u>
 LIABILITIES & FUND BALANCES			
Accounts Payable & Accrued Expenses	\$ 22,830	2,550	\$ 25,380
Interfund Payable		215,135	215,135
Due to Other Funds	196,010		196,010
TOTAL LIABILITIES	<u>218,840</u>	<u>217,685</u>	<u>436,525</u>
 FUND BALANCES			
Reserved		11,500	11,500
Unreserved	474,245	34,193	508,438
TOTAL FUND BALANCES	<u>474,245</u>	<u>45,693</u>	<u>519,938</u>
 TOTAL LIABILITIES & FUND BALANCES	 \$ <u>693,085</u>	 \$ <u>263,378</u>	 \$ <u>956,463</u>

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
RECONCILIATION OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2010

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 519,938

Amounts reported for Governmental Activities
in the Statement of Net Assets are different
because:

Capital assets used in Governmental
Activities are not financial resources
and, therefore, are not reported in
the governmental funds.

Governmental Capital Assets	\$	3,364,453	
Less Accumulated Depreciation		<u>(1,673,233)</u>	1,691,220

Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.			(142,788)
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Revenue that is deferred in the governmental activities because they have not been earned. This is the amount of lease payments which were used to construct capital assets under lease.			<u>(268,860)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>1,799,510</u>	
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See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GENERAL FUND	SPECIAL FUND	Totals
REVENUES			
Property Taxes	\$ 334,818	\$	\$ 334,818
Income Taxes	65,200		65,200
Other Local Taxes	1,109		1,109
Licenses & Permits	31,806		31,806
Intergovernmental	46,556	7,007	53,563
Miscellaneous	36,340	28,641	64,981
	515,829	35,648	551,477
TOTAL REVENUES			
EXPENDITURES			
Current Operating			
General Government	626,078		626,078
Public Safety	68,454		68,454
Parks & Recreation	49,874		49,874
Capital Outlay	2,360	18,778	21,138
Special Revenue Fund		65,990	65,990
	746,766	84,768	831,534
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(230,937)	(49,120)	(280,057)
OTHER FINANCING SOURCES & USES			
Reimbursements from Other Funds	4,500	(3,500)	1,000
Loan Proceeds	147,413		147,413
	151,913	(3,500)	148,413
TOTAL OTHER FINANCING SOURCES & USES			
NET CHANGE IN FUND BALANCES	(79,024)	(52,620)	(131,644)
FUND BALANCES - BEGINNING	553,269	98,313	651,582
FUND BALANCES - ENDING	\$ 474,245	\$ 45,693	\$ 519,938

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ (131,644)
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 cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$124,485 exceeded capital outlays of \$21,138 in the current period.	(103,347)
Proceeds from notes payable of \$147,413, net of principal payments of \$157,266, where utilized to acquire capital assets.	9,853
Revenues previously deferred in the governmental activities, which were earned during the current period.	<u>11,668</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(213,470)</u>

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
STATEMENT OF NET ASSETS
MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>UTILITY FUND</u>
ASSETS	
CURRENT ASSETS	
Cash & Cash Equivalents	\$ 589,871
Service Charges Receivable	67,928
Other Assets	19,149
Due from Other Funds	<u>145,017</u>
TOTAL CURRENT ASSETS	<u>821,965</u>
CAPITAL ASSETS	
Land, Building & Equipment	5,478,421
Less: Accumulated Depreciation	<u>(1,911,651)</u>
TOTAL CAPITAL ASSETS	<u>3,566,770</u>
TOTAL ASSETS	<u>4,388,735</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	44,128
Current Portion, Bonds Payable	<u>27,192</u>
TOTAL CURRENT LIABILITIES	<u>71,320</u>
NONCURRENT LIABILITIES	
Bonds Payable, Net of Current Portion	<u>773,021</u>
TOTAL NONCURRENT LIABILITIES	<u>773,021</u>
TOTAL LIABILITIES	<u>844,341</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,766,557
Unrestricted	<u>777,837</u>
TOTAL NET ASSETS	<u>\$ 3,544,394</u>

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

		UTILITY FUNDS
OPERATING REVENUES		
Service Fees	\$	266,387
Connection Fees & Misc. Charges		150,615
TOTAL OPERATING REVENUE		417,002
OPERATING EXPENSES		
Salaries		100,000
Maintenance		250,552
User Fees - County		96,421
Contracted Service		44,113
Utilities		17,540
General & Administrative		1,905
Miscellaneous		447
Depreciation & Amortization		122,908
TOTAL OPERATING EXPENSES		633,886
OPERATING INCOME (LOSS)		(216,884)
NONOPERATING REVENUES (EXPENSES)		
Capital Asset Donation		583,997
Rental Income		47,322
Interest Expense		(38,101)
Investment Income		3,181
TOTAL NONOPERATING REVENUE (EXPENSE)		596,399
CHANGE IN NET ASSETS		379,515
TOTAL NET ASSETS - BEGINNING		3,164,879
TOTAL NET ASSETS - ENDING	\$	3,544,394

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

		<u>UTILITY FUNDS</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$	421,951
Cash Payments to Suppliers for Goods & Services		(402,241)
Cash Payments to General Fund for Salaries		(100,000)
NET CASH FLOWS FROM OPERATING ACTIVITIES		<u>(80,290)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		<u>0</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Repayments of Bonds		(26,292)
Rental Income Received		47,322
Interest Payments and Administrative Fees Paid on Bond		(37,071)
NET CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		<u>(16,041)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest		<u>3,181</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>3,181</u>
NET DECREASE IN CASH		(93,150)
CASH & CASH EQUIVALENTS - BEGINNING		<u>683,021</u>
CASH & CASH EQUIVALENTS - END	\$	<u><u>589,871</u></u>

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>UTILITY FUNDS</u>
Reconciliation of Operating Income to Net	
Cash Flows from Operating Activities	
Operating Income (Loss)	\$ (216,884)
Add Depreciation & Amortization Expense	122,908
(Increase) Decrease in Current Assets	
Accounts Receivable	4,944
Increase (Decrease) in Current Liabilities	
Accounts Payable	<u>8,742</u>
Net Cash Used by Operating Activities	\$ <u>(80,290)</u>

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

The Town of Charlestown, Maryland (the Town) was founded in 1742, under the provisions of the laws of the State of Maryland. The Town operates under the Commissioner form of government. The Town provides the following services as authorized by its charter: General Government, Public Safety, Public Works, Parks and Recreation, and Water and Sewer Services.

The accounting policies of the Town of Charlestown, Maryland, conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to local governments. The Town has elected not to apply to its proprietary activities, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

FINANCIAL REPORTING ENTITY

The Town's financial statements include the accounts of all Town operations. The Town does not have any component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Changes in Net Assets report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of interfund activity from these statements. Governmental activities are those which are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges. The Town's business-type activities consist of its water and sewer operations.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges for services and grants and contributions restricted to

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - CONTINUED

the capital or operational requirements of specific programs or functions. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

Separate financial statements are shown for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounting and financial reporting is determined by its measurement focus. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized in the year of levy and grants are recognized when all eligibility requirements are met.

Governmental fund statements are presented using the flow of economic resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). Measurable means the amount of the transaction that can be determined and available means collected within 60 days of the year-end. Expenditures are recorded when the related liability is incurred as in the accrual basis of accounting. However, principal and interest on long-term debt and expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, revenues from other agencies, interest revenue and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.