

TOWN OF CHARLESTOWN  
AUDIT REPORT  
JUNE 30, 2010

TOWN OF CHARLESTOWN

TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report  | 1 - 2       |
| Management Discussion and Analysis  | 3 - 9       |
| Statement of Net Assets   | 10          |
| Statement of Activities   | 11          |
| Balance Sheet - Governmental Funds  | 12          |
| Reconciliation of Governmental Funds<br>to the Statement of Net Assets  | 13          |
| Statement of Revenues, Expenditures and<br>Changes in Fund Balance - Governmental Funds   | 14          |
| Reconciliation of the Statement of Revenues,<br>Expenditures and Changes in Fund Balances of<br>Governmental Funds to the Statement of Activities | 15          |
| Statement of Net Assets - Major Proprietary Funds   | 16          |
| Statement of Revenues, Expenses and Changes in<br>Fund Net Assets - Proprietary Funds   | 17          |
| Statement of Cash Flows - Proprietary Funds   | 18 - 19     |
| Notes to Financial Statements   | 20 - 34     |
| Required Supplementary Information:   |             |
| Statement of Revenues, Expenditures, Encumbrances<br>and Changes in Fund Balance Budget (Non-GAAP<br>Budgetary Basis) and Actual                  | 35 - 37     |

# WM. C. SADDLER & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1400 Front Avenue  
Suite 201  
Lutherville, Maryland 21093  
Tel: 410-321-6602  
Fax: 410-321-5535

## INDEPENDENT AUDITORS' REPORT

To the Mayor and Town Council  
Town of Charlestown

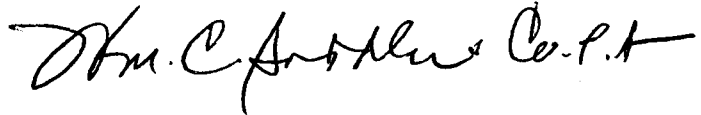
We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Charlestown as of and for the year ended June 30, 2010, which collectively comprise the Town of Charlestown's basic financial statements as listed in the 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<br>Percentage<br>Change<br>2010-2009 |
|--|----------------------------|---------------------|-----------------------------|---------------------|--------------------------------|---------------------|--|
|  | Governmental<br>Activities |                     | Business-type<br>Activities |                     | Totals -<br>Primary Government |                     |  |
|  | 2010                       | 2009                | 2010                        | 2009                | 2010                           | 2009                |  |
| <b>Assets</b>                                      |                            |                     |                             |                     |                                |                     |  |
| 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%                                      |
| <b>Total assets</b>                                | <b>2,236,538</b>           | <b>2,470,189</b>    | <b>4,388,735</b>            | <b>4,026,775</b>    | <b>6,625,273</b>               | <b>6,496,964</b>    | <b>1.97%</b>                               |
| <b>Liabilities</b>                                 |                            |                     |                             |                     |                                |                     |  |
| 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%                                     |
| <b>Total liabilities</b>                           | <b>437,028</b>             | <b>457,210</b>      | <b>844,341</b>              | <b>861,896</b>      | <b>1,281,369</b>               | <b>1,319,106</b>    | <b>-2.86%</b>                              |
| <b>Net Assets</b>                                  |                            |                     |                             |                     |                                |                     |  |
| Invested in capital assets,<br>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%                                    |
| <b>Total net assets</b>                            | <b>\$ 1,799,510</b>        | <b>\$ 2,012,979</b> | <b>\$ 3,544,394</b>         | <b>\$ 3,164,879</b> | <b>\$ 5,343,904</b>            | <b>\$ 5,177,858</b> | <b>3.21%</b>                               |



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

|   | Changes in Net Assets      |                     |                             |                     |                                |                     | Total<br>Percentage<br>Change<br>2010-2009 |
|---|----------------------------|---------------------|-----------------------------|---------------------|--------------------------------|---------------------|--|
|   | Governmental<br>Activities |                     | Business-type<br>Activities |                     | Totals -<br>Primary Government |                     |  |
|   | 2010                       | 2009                | 2010                        | 2009                | 2010                           | 2009                |  |
| <b>Revenues</b>                                     |                            |                     |                             |                     |                                |                     |  |
| <b>Program revenues:</b>                            |                            |                     |                             |                     |                                |                     |  |
| Charges for services                                | \$ 31,806                  | \$ 47,434           | \$ 417,002                  | \$ 305,743          | \$ 448,808                     | \$ 353,177          | 27.08%                                     |
| Operating Grants<br>and Contributions               | 41,108                     | 551,237             |                             |                     | 41,108                         | 551,237             | -92.54%                                    |
| Capital Grants and<br>Contributions                 | 12,455                     | 35,585              |                             |                     | 12,455                         | 35,585              | -65.00%                                    |
| <b>General revenues:</b>                            |                            |                     |                             |                     |                                |                     |  |
| 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<br>Capital Asset Donation |                            |                     | 583,997                     | 300,000             | 300,000                        | 300,000             |  |
| Unrestricted investment<br>earnings                 | 5,220                      | 13,817              | 3,181                       | 11,938              | 8,401                          | 25,755              | -67.38%                                    |
| <b>Total revenues</b>                               | <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%                                    |
| <b>Expenses</b>                                     |                            |                     |                             |                     |                                |                     |  |
| 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%                                      |
| <b>Total expenses</b>                               | <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%                                    |
| <b>Increase in net assets</b>                       | (213,469)                  | (45,676)            | 379,515                     | (4,671)             | 166,046                        | (50,347)            | -429.80%                                   |
| <b>Net assets, beginning</b>                        | <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%                                     |
| <b>Net assets, ending</b>                           | <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.

| <b>Capital Assets</b><br>(net of depreciation) |                     |                      |                     |
|--|---------------------|----------------------|---------------------|
|  | <b>Governmental</b> | <b>Business-Type</b> | <b>Total</b>        |
|  | <b>Activities</b>   | <b>Activities</b>    |                     |
| 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           |
| <b>Total net assets, net of depreciation</b>   | <b>\$ 1,691,219</b> | <b>\$ 3,566,770</b>  | <b>\$ 5,257,989</b> |

**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.

| <b>Outstanding Debt</b>    |                      |                   |
|----------------------------|----------------------|-------------------|
|                            | <b>Business-Type</b> | <b>Total</b>      |
|                            | <b>Activities</b>    |                   |
| <b>Total bonds payable</b> | <b>\$ 800,213</b>    | <b>\$ 800,213</b> |

### 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

|  | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS-TYPE<br/>ACTIVITIES</u> | <u>TOTALS</u>       |
|--|------------------------------------|-------------------------------------|---------------------|
| <b>ASSETS</b>                                      |                                    |                                     |                     |
| <b>CURRENT ASSETS</b>                              |                                    |                                     |                     |
| 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              |
|  | <u>545,318</u>                     | <u>821,965</u>                      | <u>1,367,283</u>    |
| <b>CAPITAL ASSETS</b>                              |                                    |                                     |                     |
| Land, Building & Equipment                         | 3,364,453                          | 5,478,421                           | 8,842,874           |
| Less: Accumulated Depreciation                     | (1,673,233)                        | (1,911,651)                         | (3,584,884)         |
|  | <u>1,691,220</u>                   | <u>3,566,770</u>                    | <u>5,257,990</u>    |
| <b>TOTAL ASSETS</b>                                | <u>2,236,538</u>                   | <u>4,388,735</u>                    | <u>6,625,273</u>    |
| <b>LIABILITIES</b>                                 |                                    |                                     |                     |
| <b>CURRENT LIABILITIES</b>                         |                                    |                                     |                     |
| 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               |
|  | <u>300,245</u>                     | <u>71,320</u>                       | <u>371,565</u>      |
| <b>NONCURRENT LIABILITIES</b>                      |                                    |                                     |                     |
| Bonds Payable, Net of Current Portion              |                                    | 773,021                             | 773,021             |
| Note Payable, Net of Current Portion               | 136,783                            |                                     | 136,783             |
|  | <u>437,028</u>                     | <u>844,341</u>                      | <u>1,281,369</u>    |
| <b>NET ASSETS</b>                                  |                                    |                                     |                     |
| Invested in Capital Assets,<br>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           |
|  | <u>1,799,510</u>                   | <u>3,544,394</u>                    | <u>5,343,904</u>    |
| <b>TOTAL NET ASSETS</b>                            | <u>\$ 1,799,510</u>                | <u>\$ 3,544,394</u>                 | <u>\$ 5,343,904</u> |

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               |
| <b>FUNCTIONS/PROGRAMS</b>              |                     |                      |                                  |   |                         |                          |                     |
| <b>GOVERNMENTAL ACTIVITIES</b>         |                     |                      |                                  |   |                         |                          |                     |
| 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)           |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>   | <b>777,614</b>      | <b>31,806</b>        | <b>41,108</b>                    | <b>12,455</b>                                   | <b>(692,245)</b>        |                          | <b>(692,245)</b>    |
| <b>BUSINESS-TYPE ACTIVITIES</b>        |                     |                      |                                  |   |                         |                          |                     |
| Water & Sewer System                   | 671,987             | 417,002              |                                  |   |                         | \$ (254,985)             | (254,985)           |
| <b>TOTAL BUSINESS -TYPE ACTIVITIES</b> | <b>671,987</b>      | <b>417,002</b>       | <b>0</b>                         | <b>0</b>  | <b>0</b>                | <b>(254,985)</b>         | <b>(254,985)</b>    |
| <b>TOTAL PRIMARY GOVERNMENT</b>        | <b>\$ 1,449,601</b> | <b>\$ 448,808</b>    | <b>\$ 41,108</b>                 | <b>\$ 12,455</b>                                | <b>(692,245)</b>        | <b>(254,985)</b>         | <b>(947,230)</b>    |
| <b>GENERAL REVENUES</b>                |                     |                      |                                  |   |                         |                          |                     |
| 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               |
| <b>TOTAL GENERAL REVENUES</b>          |                     |                      |                                  |   | <b>478,776</b>          | <b>634,500</b>           | <b>1,113,276</b>    |
| <b>CHANGE IN NET ASSETS</b>            |                     |                      |                                  |   | <b>(213,469)</b>        | <b>379,515</b>           | <b>166,046</b>      |
| <b>NET ASSETS - BEGINNING</b>          |                     |                      |                                  |   | <b>2,012,979</b>        | <b>3,164,879</b>         | <b>5,177,858</b>    |
| <b>NET ASSETS - ENDING</b>             |                     |                      |                                  |   | <b>\$ 1,799,510</b>     | <b>\$ 3,544,394</b>      | <b>\$ 5,343,904</b> |

See accompanying notes and auditors' report.

TOWN OF CHARLESTOWN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

|  | <u>GENERAL<br/>FUND</u>      | <u>SPECIAL<br/>FUND</u>      | <u>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|--|------------------------------|------------------------------|---|
| <b>ASSETS</b>                                    |                              |                              |   |
| 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                                  |
| <b>TOTAL ASSETS</b>                              | <b>\$ <u>693,085</u></b>     | <b>\$ <u>263,378</u></b>     | <b>\$ <u>956,463</u></b>                |
| <br><b>LIABILITIES &amp; FUND BALANCES</b>       |                              |                              |   |
| Accounts Payable & Accrued Expenses              | \$ 22,830                    | 2,550                        | \$ 25,380                               |
| Interfund Payable                                |                              | 215,135                      | 215,135                                 |
| Due to Other Funds                               | 196,010                      |                              | 196,010                                 |
| <b>TOTAL LIABILITIES</b>                         | <b><u>218,840</u></b>        | <b><u>217,685</u></b>        | <b><u>436,525</u></b>                   |
| <br><b>FUND BALANCES</b>                         |                              |                              |   |
| Reserved   |                              | 11,500                       | 11,500                                  |
| Unreserved                                       | 474,245                      | 34,193                       | 508,438                                 |
| <b>TOTAL FUND BALANCES</b>                       | <b><u>474,245</u></b>        | <b><u>45,693</u></b>         | <b><u>519,938</u></b>                   |
| <br><b>TOTAL LIABILITIES &amp; FUND BALANCES</b> | <br><b>\$ <u>693,085</u></b> | <br><b>\$ <u>263,378</u></b> | <br><b>\$ <u>956,463</u></b>            |

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<br>of capital assets are not reported in the<br>governmental funds. |  |  | (142,788) |
|---|--|--|-----------|

|  |  |  |                  |
|--|--|--|------------------|
| Revenue that is deferred in the governmental<br>activities because they have not been earned.<br>This is the amount of lease payments which<br>were used to construct capital assets under<br>lease. |  |  | <u>(268,860)</u> |
|--|--|--|------------------|

|                                       |    |                  |  |
|---------------------------------------|----|------------------|--|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>1,799,510</u> |  |
|---------------------------------------|----|------------------|--|

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<br>FUND   | SPECIAL<br>FUND  | Totals            |
|--|-------------------|------------------|-------------------|
| <b>REVENUES</b>  |                   |                  |                   |
| 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            |
| <b>TOTAL REVENUES</b>  | <b>515,829</b>    | <b>35,648</b>    | <b>551,477</b>    |
| <b>EXPENDITURES</b>  |                   |                  |                   |
| 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            |
| <b>TOTAL EXPENDITURES</b>                                    | <b>746,766</b>    | <b>84,768</b>    | <b>831,534</b>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>(230,937)</b>  | <b>(49,120)</b>  | <b>(280,057)</b>  |
| <b>OTHER FINANCING SOURCES &amp; USES</b>                    |                   |                  |                   |
| Reimbursements from Other Funds                              | 4,500             | (3,500)          | 1,000             |
| Loan Proceeds  | 147,413           |                  | 147,413           |
| <b>TOTAL OTHER FINANCING SOURCES &amp; USES</b>              | <b>151,913</b>    | <b>(3,500)</b>   | <b>148,413</b>    |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>(79,024)</b>   | <b>(52,620)</b>  | <b>(131,644)</b>  |
| <b>FUND BALANCES - BEGINNING</b>                             | <b>553,269</b>    | <b>98,313</b>    | <b>651,582</b>    |
| <b>FUND BALANCES - ENDING</b>                                | <b>\$ 474,245</b> | <b>\$ 45,693</b> | <b>\$ 519,938</b> |

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<br>in the Statement of Activities are different<br>because:  |                     |
| Governmental funds report capital outlays as<br>expenditures. However, in the Statement of<br>Activities, the cost of those assets is allocated<br>over their estimated useful lives and reported<br>as depreciation expense. This is the amount<br>by which depreciation of \$124,485 exceeded<br>capital outlays of \$21,138 in the current period. | (103,347)           |
| Proceeds from notes payable of \$147,413, net of<br>principal payments of \$157,266, where utilized<br>to acquire capital assets.   | 9,853               |
| Revenues previously deferred in the governmental<br>activities, which were earned during the<br>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<br/>FUND</u> |
|--|-------------------------|
| <b>ASSETS</b>                                      |                         |
| <b>CURRENT ASSETS</b>                              |                         |
| Cash & Cash Equivalents                            | \$ 589,871              |
| Service Charges Receivable                         | 67,928                  |
| Other Assets                                       | 19,149                  |
| Due from Other Funds                               | <u>145,017</u>          |
| <b>TOTAL CURRENT ASSETS</b>                        | <u>821,965</u>          |
| <b>CAPITAL ASSETS</b>                              |                         |
| Land, Building & Equipment                         | 5,478,421               |
| Less: Accumulated Depreciation                     | <u>(1,911,651)</u>      |
| <b>TOTAL CAPITAL ASSETS</b>                        | <u>3,566,770</u>        |
| <b>TOTAL ASSETS</b>                                | <u>4,388,735</u>        |
| <b>LIABILITIES</b>                                 |                         |
| <b>CURRENT LIABILITIES</b>                         |                         |
| Accounts Payable                                   | 44,128                  |
| Current Portion, Bonds Payable                     | <u>27,192</u>           |
| <b>TOTAL CURRENT LIABILITIES</b>                   | <u>71,320</u>           |
| <b>NONCURRENT LIABILITIES</b>                      |                         |
| Bonds Payable, Net of Current Portion              | <u>773,021</u>          |
| <b>TOTAL NONCURRENT LIABILITIES</b>                | <u>773,021</u>          |
| <b>TOTAL LIABILITIES</b>                           | <u>844,341</u>          |
| <b>NET ASSETS</b>                                  |                         |
| Invested in Capital Assets,<br>Net of Related Debt | 2,766,557               |
| Unrestricted                                       | <u>777,837</u>          |
| <b>TOTAL NET ASSETS</b>                            | <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<br>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<br/>FUNDS</u> |
|---|----|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES                          |    |                          |
| Cash Received from Customers                                  | \$ | 421,951                  |
| Cash Payments to Suppliers for Goods<br>& Services            |    | (402,241)                |
| Cash Payments to General Fund for Salaries                    |    | (100,000)                |
|   |    | <u>(80,290)</u>          |
| NET CASH FLOWS FROM OPERATING ACTIVITIES                      |    |                          |
| CASH FLOWS FROM NON-CAPITAL<br>FINANCING ACTIVITIES           |    | <u>0</u>                 |
| CASH FLOWS FROM CAPITAL & RELATED<br>FINANCING ACTIVITIES     |    |                          |
| Repayments of Bonds   |    | (26,292)                 |
| Rental Income Received  |    | 47,322                   |
| Interest Payments and Administrative<br>Fees Paid on Bond     |    | (37,071)                 |
|   |    | <u>(16,041)</u>          |
| NET CASH FLOWS FROM CAPITAL &<br>RELATED FINANCING ACTIVITIES |    |                          |
| 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>589,871</u>           |

See accompanying notes and auditors' report.

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

|  | UTILITY<br>FUNDS |
|--|------------------|
| 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                           | 8,742            |
| Net Cash Used by Operating Activities      | \$ (80,290)      |

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.