

TOWN OF CHARLESTOWN

AUDIT REPORT

YEAR ENDED JUNE 30, 2011

TOWN OF CHARLESTOWN

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CHARTERED
Independent Auditors' Report

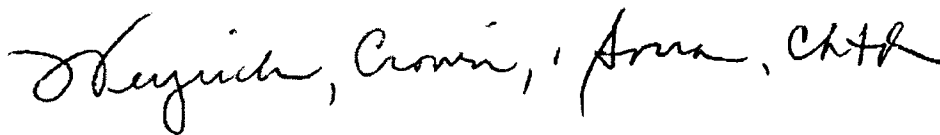
To the Town Commissioners
Town of Charlestown

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, 2011, 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, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 30 through 32 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.



October 7, 2011



Certified Public Accountants • Business Consultants

TOWN OF CHARLESTOWN

Management's Discussion and Analysis June 30, 2011

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, 2011. 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 2011 fiscal year by \$5,136,619 (net assets). Approximately 67% of this amount is attributable to the Utility Fund. Of the total net assets, \$1,191,466 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors (63% of this amount is attributable to the Utility Fund), and \$3,933,653 is invested in capital assets, net of related debt. As of June 30, 2011, the Town's governmental funds reported combined ending fund balances of \$453,279. Of this total amount, \$441,779 or 97% is available to meet the Town's current and future needs and is classified as unrestricted fund balance. As of June 30, 2011, the unrestricted fund balance for the General Fund (primary operating fund) was \$512,684 or 71% of total General Fund expenditures. The Town's total long-term debt decreased by (\$30,109) 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.

TOWN OF CHARLESTOWN

Management's Discussion and Analysis June 30, 2011

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 10-13. The budgetary comparison can be found as other required supplementary information on pages 30-32.

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 government-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 14-17 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 18 - 29 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 30-32.

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 \$5,136,619 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 (77%) 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.

Management's Discussion and Analysis
June 30, 2011

Net Assets

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Management's Discussion and Analysis June 30, 2011

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

	Changes in Net Assets						Total Percentage Change 2011-2010
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2011	2010	2011	2010	2011	2010	
Revenues							
Program revenues:							
Charges for services	\$ 26,525	\$ 31,806	\$ 349,186	\$ 417,002	\$ 375,711	\$ 448,808	-16.29%
Operating Grants and Contributions	47,337	41,108			47,337	41,108	15.15%
Capital Grants and Contributions	86,981	12,455			86,981	12,455	598.36%
General revenues:							
Property and other taxes	441,601	401,127			441,601	401,127	10.09%
Rent income	59,472	57,165	47,322	47,322	106,794	104,487	2.21%
Miscellaneous	9,587	15,264		583,997	9,587	15,264	-37.19%
Capital Asset Donation						583,997	-100.00%
Unrestricted investment earnings	2,501	5,220	1,831	3,181	4,332	8,401	-48.43%
Total revenues	674,004	564,145	398,339	1,051,502	1,072,343	1,615,647	-33.63%
Expenses							
General government	416,806	474,564			416,806	474,564	-12.17%
Parks and recreation	95,925	110,151			95,925	110,151	-12.91%
Public safety	76,299	77,422			76,299	77,422	-1.45%
Public works	189,119	115,477			189,119	115,477	63.77%
Water and sewer			501,475	671,987	501,475	671,987	-25.37%
Total expenses	778,149	777,614	501,475	671,987	1,279,624	1,449,601	-11.73%
Decrease in net assets	(104,145)	(213,469)	(103,136)	379,515	(207,281)	166,046	-224.83%
Net assets, beginning	1,799,507	2,012,976	3,544,393	3,164,878	5,343,900	5,177,854	3.21%
Net assets, ending	\$ 1,695,362	\$ 1,799,507	\$ 3,441,257	\$ 3,544,393	\$ 5,136,619	\$ 5,343,900	-3.88%

Governmental activities: General revenues for the governmental activities were \$513,161, while total expenses, net of charges for services were \$617,306. The loss in net assets for governmental activities was (\$104,145).

TOWN OF CHARLESTOWN

Management's Discussion and Analysis June 30, 2011

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. The focus of the Town's *governmental funds* is to provide information on current inflows, outflows, and balances of available, *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-end. At June 30, 2011, the Town's governmental funds reported a combined ending fund balance of \$453,279, a decrease of \$66,656 in comparison with the prior year. Approximately 97% of this total amount (\$441,779) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance (\$11,500) is *nonspendable* to indicate that it is not available for new spending because it has already been committed and dedicated for a restricted purpose. The nonspendable fund balance, at 3% of total fund balance, does not significantly affect the availability of fund resources for future use.

The General Fund is the chief operating fund of the Town of Charlestown. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$512,684. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 71% of total General Fund expenditures. The fund balance of the Town of Charlestown's General Fund increased by \$38,440 during the current fiscal year. The Special Revenue Fund has a total fund deficit of \$59,405, which is entirely restricted for fund purposes.

Proprietary funds. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Total net assets of the Utility Fund totaled \$3,441,257. Other factors concerning these fund finances have been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

A budget and actual comparison schedule is provided as other required supplemental information. The budget and actual comparison schedules show the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general fund.

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Management's Discussion and Analysis June 30, 2011

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, 2011, was \$5,103,738 (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 25 and 26 of this report.

Capital Assets (net of depreciation)			
	Governmental Activities	Business-Type Activities	Total
Land	\$ 420,702	\$ - 0 -	\$ 420,702
Historic Building and Artifacts	220,000		220,000
Building and improvements	913,472	- 0 -	913,472
Machinery and equipment	84,972		84,972
Water and sewer systems	- 0 -	3,464,592	3,464,592
Total net assets, net of depreciation	\$ 1,639,146	\$ 3,464,592	\$ 5,103,738

Debt administration. At June 30, 2011, the Town had a note payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds totaling \$699,700. There was also a note payable to Maryland Department of Natural Resources for \$73,322. A note payable for the December 2008 purchase of the Historic Cecil Hotel in the amount of \$125,836. An interest-free project financing loan payable to the Maryland Department of Natural Resources for the financing of the Stone Warf Project in the amount of \$14,034 which represents the amount spent and disbursed to the Town.

Outstanding Debt			
	Governmental Activities	Business-Type Activities	Total
Total bonds and notes payable	\$ 139,870	\$ 773,022	\$ 912,892

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 Wilb 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, 2011

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash and cash equivalents	\$ 569,560	\$ 522,484	\$ 1,092,044
Service charges receivable	- 0 -	76,173	76,173
Accounts receivable	22,026	- 0 -	22,026
Prepaid expenses	- 0 -	58,346	58,346
Due from other Governments	28,685	- 0 -	28,685
Internal balances	(145,017)	145,017	- 0 -
Other assets	- 0 -	18,119	18,119
Total Current Assets	<u>475,254</u>	<u>820,139</u>	<u>1,295,393</u>
CAPITAL ASSETS			
Land, building and equipment	3,446,872	5,492,872	8,939,744
Less: accumulated depreciation	<u>(1,807,726)</u>	<u>(2,028,280)</u>	<u>(3,836,006)</u>
Total Capital Assets	<u>1,639,146</u>	<u>3,464,592</u>	<u>5,103,738</u>
TOTAL ASSETS	<u>2,114,400</u>	<u>4,284,731</u>	<u>6,399,131</u>
CURRENT LIABILITIES			
Accounts payable and accrued expenses	21,975	38,119	60,094
Unearned revenue	257,193	32,333	289,526
Current portion - bond payable	- 0 -	28,192	28,192
Current portion - note payable	<u>5,090</u>	<u>- 0 -</u>	<u>5,090</u>
Total Current Liabilities	<u>284,258</u>	<u>98,644</u>	<u>382,902</u>
NONCURRENT LIABILITIES			
Bonds payable, net of current portion	- 0 -	744,830	744,830
Note payable, net of current portion	<u>134,780</u>	<u>- 0 -</u>	<u>134,780</u>
TOTAL LIABILITIES	<u>419,038</u>	<u>843,474</u>	<u>1,262,512</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,242,083	2,691,570	3,933,653
Restricted	11,500	- 0 -	11,500
Unrestricted	<u>441,779</u>	<u>749,687</u>	<u>1,191,466</u>
TOTAL NET ASSETS	<u>\$ 1,695,362</u>	<u>\$ 3,441,257</u>	<u>\$ 5,136,619</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Activities
For the Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES	Expenses					
	\$ 416,806	\$ 26,525	\$ 20,552	\$ (333,654)	\$ - 0 -	\$ (333,654)
	76,299	- 0 -	- 0 -	(76,299)	- 0 -	(76,299)
	189,119	- 0 -	39,639	(138,218)	- 0 -	(138,218)
	95,925	- 0 -	26,790	(69,135)	- 0 -	(69,135)
Total Governmental Activities	778,149	47,337	86,981	(617,306)	- 0 -	(617,306)
BUSINESS-TYPE ACTIVITIES						
Water and sewer system	501,475	- 0 -	- 0 -	- 0 -	(152,289)	(152,289)
Total Business-Type Activities	501,475	- 0 -	- 0 -	- 0 -	(152,289)	(152,289)
TOTAL PRIMARY GOVERNMENT	\$ 1,279,624	\$ 47,337	\$ 86,981	(617,306)	(152,289)	(769,595)
GENERAL REVENUES						
Taxes:						
Property				361,719	- 0 -	361,719
Income and other				79,882	- 0 -	79,882
Rental income				59,472	47,322	106,794
Miscellaneous				9,587	- 0 -	9,587
Investment income				2,501	1,831	4,332
TOTAL GENERAL REVENUES				513,161	49,153	562,314
CHANGE IN NET ASSETS				(104,145)	(103,136)	(207,281)
NET ASSETS - BEGINNING				1,799,507	3,544,393	5,343,900
NET ASSETS - ENDING				\$ 1,695,362	\$ 3,441,257	\$ 5,136,619

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Balance Sheet Governmental Funds June 30, 2011

	General Fund	Special Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 387,419	\$ 182,141	\$ 569,560
Interfund receivables	288,714	- 0 -	288,714
Accounts receivable	9,153	1,798	10,951
Property taxes receivable	11,075	- 0 -	11,075
Due from other governments	28,685	- 0 -	28,685
Due from other funds	- 0 -	50,993	50,993
Total Assets	<u>\$ 725,046</u>	<u>\$ 234,932</u>	<u>\$ 959,978</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES:</u>			
Accounts payable and accrued expenses	\$ 16,352	\$ 5,623	\$ 21,975
Interfund payable	- 0 -	288,714	288,714
Due to other funds	196,010	- 0 -	196,010
Total Liabilities	<u>212,362</u>	<u>294,337</u>	<u>506,699</u>
<u>FUND BALANCES:</u>			
Nonspendable	- 0 -	11,500	11,500
Unassigned	512,684	(70,905)	441,779
Total Fund Balances	<u>512,684</u>	<u>(59,405)</u>	<u>453,279</u>
	<u>\$ 725,046</u>	<u>\$ 234,932</u>	<u>\$ 959,978</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Reconciliation of Governmental Funds to the Statement of Net Assets June 30, 2011

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 453,279
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	\$ 3,446,872	
Less accumulated depreciation	<u>(1,807,726)</u>	1,639,146
Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.		(139,870)
Revenues that are 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>(257,193)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,695,362</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Revenue, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Special Fund</u>	<u>Totals</u>
REVENUES			
Property taxes	\$ 361,719	\$ - 0 -	\$ 361,719
Income taxes	79,073	- 0 -	79,073
Other local taxes	809	- 0 -	809
Licenses and permits	26,525	- 0 -	26,525
Intergovernmental	83,417	11,262	94,679
Grants	- 0 -	39,639	39,639
Miscellaneous	28,653	30,239	58,892
Total Revenues	<u>580,196</u>	<u>81,140</u>	<u>661,336</u>
EXPENDITURES			
Current operating			
General government	561,897	- 0 -	561,897
Public safety	67,330	- 0 -	67,330
Parks and recreation	29,860	- 0 -	29,860
Capital outlay	61,101	21,318	82,419
Special revenue fund	- 0 -	164,918	164,918
Total Expenditures	<u>720,188</u>	<u>186,236</u>	<u>906,424</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(139,992)</u>	<u>(105,096)</u>	<u>(245,088)</u>
OTHER FINANCING SOURCES AND USES			
Reimbursements from other funds	175,510	- 0 -	175,510
Loan proceeds	2,922	- 0 -	2,922
TOTAL OTHER FINANCING SOURCES AND USES	<u>178,432</u>	<u>- 0 -</u>	<u>178,432</u>
NET CHANGE IN FUND BALANCES	<u>38,440</u>	<u>(105,096)</u>	<u>(66,656)</u>
FUND BALANCES - BEGINNING	<u>474,244</u>	<u>45,691</u>	<u>519,935</u>
FUND BALANCES - ENDING	<u>\$ 512,684</u>	<u>\$ (59,405)</u>	<u>\$ 453,279</u>

See accompanying notes to financial statements

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, 2011

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ (66,656)
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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 \$134,493 exceeded capital outlays of \$82,419 in the current period.	(52,074)
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Proceeds from notes payable of \$2,922, net of principal payments of \$5,840, were utilized to acquire capital assets.	2,918
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Revenues previously deferred in the governmental activities, which were earned during the current period.	<u>11,667</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (104,145)</u>
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See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Net Assets Major Proprietary Funds For the Year Ended June 30, 2011

	Utility Fund
CURRENT ASSETS	
Cash and cash equivalents	\$ 522,484
Service charges receivable	76,173
Prepaid Expenses	58,346
Due from other funds	145,017
Other assets	18,119
Total Current Assets	<u>820,139</u>
CAPITAL ASSETS	
Land, building and equipment	5,492,872
Less: accumulated depreciation	<u>(2,028,280)</u>
Total Capital Assets	<u>3,464,592</u>
TOTAL ASSETS	<u>4,284,731</u>
CURRENT LIABILITIES	
Accounts payable	38,119
Deferred revenue	32,333
Current portion, bonds payable	<u>28,192</u>
Total Current Liabilities	<u>98,644</u>
NONCURRENT LIABILITIES	
Bonds payable, net of current portion	<u>744,830</u>
Total Noncurrent Liabilities	<u>744,830</u>
TOTAL LIABILITIES	<u>843,474</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,691,570
Unrestricted	<u>749,687</u>
TOTAL NET ASSETS	<u><u>\$ 3,441,257</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds For the Year Ended June 30, 2011

	<u>Utility Funds</u>
OPERATING REVENUES	
Service fees	\$ 275,584
Connection fees and misc. charges	72,762
Miscellaneous	<u>840</u>
Total Operating Revenue	<u>349,186</u>
OPERATING EXPENSES	
Salaries	129,130
Maintenance	54,654
User fees - county	106,142
Contracted service	39,137
Utilities	15,570
General and administrative	2,493
Miscellaneous	600
Depreciation and amortization	<u>116,629</u>
Total Operating Expenses	<u>464,355</u>
OPERATING LOSS	<u>(115,169)</u>
NONOPERATING REVENUES (EXPENSES)	
Rental income	47,322
Interest expense	(37,120)
Investment income	<u>1,831</u>
Total Nonoperating Revenue (Expense)	<u>12,033</u>
CHANGE IN NET ASSETS	<u>(103,136)</u>
TOTAL NET ASSETS - BEGINNING	<u>3,544,393</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 3,441,257</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Cash Flows - Proprietary Funds For the Year Ended June 30, 2011

	<u>Utility Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 340,941
Cash payments to suppliers for goods and services	(282,951)
Cash payments to general fund for salaries	<u>(129,130)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(71,140)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	<u>- 0 -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayments of bonds	(27,191)
Rental income received	47,322
Cash received for capital projects	32,333
Interest payments and administrative fees paid on bond	<u>(36,090)</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>16,374</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(14,452)
Receipt of interest	<u>1,831</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(12,621)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(67,387)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>589,871</u>
CASH AND CASH EQUIVALENTS - END	<u><u>\$ 522,484</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Cash Flows - Proprietary Funds For the Year Ended June 30, 2011

	<u>Utility Funds</u>
Reconciliation of operating loss to net cash flows from operating activities	
Operating loss	\$ (115,169)
Add depreciation and amortization expense	116,629
Increase in current assets	
Accounts receivable	(8,245)
Prepaid expenses	(58,346)
Decrease in current liabilities	
Accounts payable	<u>(6,009)</u>
Net cash used in operating activities	<u>\$ (71,140)</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

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 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 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.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FUND ACCOUNTING

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures or expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the Town:

Governmental Fund Types

General Fund - The General Fund is the general 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.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Fund Types

Utility Fund - The Utility Fund is used to account for the operations of the Town's water and sewer system. Its operations are financed and operated in a manner similar to a private business enterprise where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

BUDGETS AND BUDGETARY ACCOUNTING

Formal budgetary accounting is employed as a management control for the Town's General Fund and Utility Fund. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Utility Fund, which is an enterprise fund, is adopted under a basis consistent with GAAP, except that depreciation is not considered.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

A comparison of the budget to actual results for the General Fund can be found as other required supplemental information immediately following these footnotes.

The budget for the Utility Fund is used primarily as a management tool and is not presented in these financial statements.

The Town follows these procedures in establishing budgetary data reflected in the financial statements:

- 1) Prior to May 1 of each year, the Town Administrator submits to the Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes requested expenditures and the means of financing them. The total anticipated revenue must equal or exceed total proposed expenditures.
- 2) No later than July 1, the budget is legally enacted by a favorable vote of at least a majority of a quorum of the Commissioners.
- 3) The Town Administrator is not authorized to make any transfers of budgeted amounts; any commitments which would result in a significant over-expenditure of an appropriation must be approved by the Commissioners.
- 4) All annual appropriations lapse at fiscal year-end.

The Town prepares its budget for the General Fund and accounts for certain transactions on a basis of GAAP. However, the Utility Fund's share of expenses is budgeted as revenue in the General Fund and the expenditures are budgeted at gross amounts. A reconciliation of GAAP to Budgetary Basis is as follows:

	<u>Revenues</u>	<u>Expenditures</u>
GAAP basis	\$ 583,118	\$ 544,678
Utility Fund reimbursements	130,130	130,130
Special Fund Reimbursements	45,380	45,380
Prior year surplus	<u>36,560</u>	<u>- 0 -</u>
Budgetary basis	<u>\$ 795,188</u>	<u>\$ 720,188</u>

The legal level of budgetary control is at the level of general classification of expenditure. The Town exceeded its budget at June 30, 2011 as follows:

Administration	\$ 958
Contract Services	\$ 1,702

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows - Proprietary Fund type, the Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

ACCOUNTS RECEIVABLE

Governmental Funds - The accounts receivable in the general fund consists of property taxes and other amounts due from citizens of the Town.

Proprietary Fund - The accounts receivable of the Utility Fund consists of water and sewer charges. These balances are continually reviewed by Town management and are deemed fully collectible.

INTERFUND RECEIVABLES AND PAYABLES

The Town affects a variety of transactions between funds in its operations. To the extent that certain interfund transactions have not been received or disbursed, appropriate interfund receivables and payables have been established.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Capital assets, which include property, plant, and equipment, and infrastructure such as roads, storm drains, and pipe systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with a cost of more than \$2,500. Infrastructure, excluding roads, acquired prior to implementation of GASB Statement 34 has been reported. Such assets are valued at historical or estimated historical cost if actual historical cost is not available. Donated assets are stated at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Capital assets purchased by an enterprise fund since 1978 are directly capitalized in the enterprise fund and depreciation is recorded over the estimated useful life of the asset using the straight-line method of depreciation. Fixed assets acquired prior to that date are recorded at "estimated, historical, depreciated cost" or determined by professional engineers. The estimated useful lives are as follows:

Water system	10 - 50 years
Sewer system	30 - 50 years
Buildings and improvements	50 years
Machinery and equipment	5 - 50 years

Long-term liabilities expected to be financed from governmental fund operations are accounted for in the government-wide financial statements, not in the governmental funds. Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

Long-term liabilities incurred by the enterprise funds are expected to be repaid from revenues generated within these individual funds in future years. Therefore, the long-term liabilities incurred in the enterprise funds are recorded in the fund which incurred the debt.

NET ASSETS

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Assets

This category represent the net assets of the Town which have been restricted for a specific project or purpose by a third party. As of June 30, 2011, net assets classified as restricted consisted of funds whose purpose was restricted by the donor for perpetual maintenance of the cemetery.

Unrestricted Net Assets

This category represents the net assets of the Town, which are not restricted for any project or other purpose by third parties.

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

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2011, the Town maintained a balance of \$11,500, which is permanently restricted for the perpetual maintenance of the cemetery.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2011, the Town did not have any assets to be reported in this category.

Committed

This category includes amounts constrained for a specific purpose by the Board of Commissioners using its highest level of decision making authority, prior to year end. As of June 30, 2011, the Town did not have any assets to be reported in this category.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2011, the Town did not have any assets to be reported in this category.

Unassigned

This category includes all funds which are not specifically classified as Unspendable, Restricted, Committed or Assigned.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

PROPERTY TAXES

Taxpayers have the option to pay their real property tax in two installments. The first installment is due July 1 and the second installment is due December 31.

Taxes on real and personal property are levied on a fiscal year basis as of July 1. All unpaid taxes as of 90 days after the levy are subject to interest at 12% per annum. Delinquent property taxes are attached as an enforceable lien on the underlying properties. Property tax revenue is recognized in the year it is levied and becomes available, including amounts expected to be collected soon enough after the end of the year to be available to pay liabilities of the current period.

Real and personal property taxes are levied at rates enacted by the Commissioners in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield rate furnished by the Maryland State Department of Assessments and Taxation without public notice and only after public hearings. For fiscal 2011, the Town of Charlestown real property tax rate was \$.28 per \$100 of assessed value and the business personal property tax rate was \$.80 per \$100 of assessed value.

1. Cash and Investments

At year-end, the carrying amount of the Town's deposits was \$1,085,795 and the bank balance was \$1,082,510. Of the bank balance, \$255,280 was covered by federal deposit insurance. An additional \$250,000 was secured by pledged collateral held by the local banking institution. The remaining \$577,230 was unsecured as of June 30, 2011. The unsecured balance as of June 30, 2011 was in violation of the Annotated Code of Maryland. However, the Town has corrected this violation as of September 14, 2011. This correction is further documented in Footnote 8 – Subsequent Events.

The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. A MLGIP advisory committee of current participants was formed to review, on a quarterly basis, the activities of the Pool and to provide suggestions to enhance the Pool. At June 30, 2011, the Town had \$6,149 deposited with the Pool.

Reconciliation of cash and cash equivalents as shown on the Statement of Net Assets:

Cash on Hand	\$ 100
Carrying amount of deposits	1,085,795
Carrying amount of temporary investments	<u>6,149</u>
Total cash and cash equivalents per the Statement of Net Assets	<u>\$ 1,092,044</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

1. Cash and Investments (continued)

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities between thirty days to one year in order to remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated. Town management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose.

Credit Risk

The investment policy of the Town permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. obligations, U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. It is rated AAA by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The investments of the Town were exposed to custodial credit risk at June 30, 2011 in the amount of \$581,520. As previously stated, the Town corrected this violation on September 14, 2011.

2. Nonspendable Fund Balance

Cemetery Reserve

The Town maintains a reserve restricted to future cemetery maintenance. The balance as of June 30, 2011 was \$11,500.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

3. Interfund Receivables and Payables

Interfund receivables and payables consist of the following:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 3,538	\$ 199,548
Special fund	<u>288,714</u>	<u>- 0 -</u>
	<u>292,252</u>	<u>199,548</u>
Special Fund		
Utility fund	50,993	- 0 -
General fund	<u>- 0 -</u>	<u>288,714</u>
	<u>50,993</u>	<u>288,714</u>
Utility Fund		
General fund	199,548	3,538
Special fund	<u>- 0 -</u>	<u>50,993</u>
	<u>199,548</u>	<u>54,531</u>
Total	<u>\$ 542,793</u>	<u>\$ 542,793</u>

4. Capital Assets

Property and equipment of the Governmental Activities is summarized as follows:

	<u>Balance June 30, 2010</u>	<u>Additions and Transfers</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated			
Land	\$ 420,702	\$ - 0 -	\$ 420,702
Historic building & artifacts	220,000	- 0 -	220,000
Capital assets, being depreciated			
Building and improvements	2,543,123	34,919	2,578,042
Machinery and equipment	<u>180,628</u>	<u>47,500</u>	<u>228,128</u>
Total assets being depreciated	<u>3,364,453</u>	<u>82,419</u>	<u>3,446,872</u>
Less Accumulated Depreciation:			
Buildings and improvements	(1,539,361)	(125,209)	(1,664,570)
Machinery and equipment	<u>(133,872)</u>	<u>(9,284)</u>	<u>(143,156)</u>
Total accumulated depreciation	<u>(1,673,233)</u>	<u>(134,493)</u>	<u>(1,807,726)</u>
Total capital assets	<u>\$ 1,691,220</u>	<u>\$ (52,074)</u>	<u>\$ 1,639,146</u>

There were no deletions or transfers out during the year.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2011

4. Capital Assets (continued)

Depreciation was charged to functions in the governmental activities as follows:

General Government	\$	7,957
Public Safety		8,969
Parks & Recreation		66,366
Public Works		<u>51,201</u>
Total	\$	<u>134,493</u>

Property and equipment of the Utility Fund is summarized as follows:

	Balance June 30, 2010	Additions and Transfers	Balance June 30, 2011
Capital assets, being depreciated			
Water systems	\$ 3,480,164	\$ 14,451	\$ 3,494,615
Sewer systems	<u>1,998,257</u>	<u>- 0 -</u>	<u>1,998,257</u>
Total assets being depreciated	<u>5,478,421</u>	<u>14,451</u>	<u>5,492,872</u>
Less Accumulated Depreciation:			
Water systems	(1,155,052)	(76,202)	(1,231,254)
Sewer systems	<u>(756,599)</u>	<u>(40,427)</u>	<u>(797,026)</u>
Total accumulated depreciation	<u>(1,911,651)</u>	<u>(116,629)</u>	<u>(2,028,280)</u>
Total capital assets	<u>\$ 3,566,770</u>	<u>\$ (102,178)</u>	<u>\$ 3,464,592</u>

There were no deletions or transfers out during the year.

5. Bonds and Notes Payable

The following is a summary of the bonds and notes payable as of June 30, 2011:

	Governmental Activities	Business-type Activities
Amount payable at beginning of year	\$ 142,788	\$ 800,213
Advances	2,922	- 0 -
Principal retirements	<u>(5,840)</u>	<u>(27,191)</u>
Amount payable at end of year	<u>\$ 139,870</u>	<u>\$ 773,022</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2011

5. Bonds and Notes Payable (continued)

Notes payable consists of the following at June 30, 2011:

Governmental Activities:

Deed of Trust Note:

Funds disbursed October, 2009 to refinance the purchase of real property in the Town of Charlestown, the Historic Cecil Hotel. Loan is payable over 5 years with monthly principal and interest payments of \$625. Interest is payable at a variable rate of 1%, increasing to 3% by year 3. The loan includes a balloon payment due at the end of year five. The loan is secured by certain real property. Final maturity date is October 1, 2014.

	\$ 125,836
Less Current Portion	<u>(4,790)</u>
Non-Current Portion	<u>\$ 121,046</u>

Maryland Department of Natural Resources – Project Financing Loan:

Funds were disbursed in September 2009 and February 2011 to finance the Charlestown Stone Wharf Park project. Loan is interest-free, payable in 20 annual installments of \$763 beginning July 1 after completion of project. \$28,320 has been awarded for this project. However, as of June 30, 2010 only \$11,413 has been spent and disbursed to the Town.

	\$ 14,034
Less Current Portion	<u>(300)</u>
Non-Current Portion	<u>\$ 13,734</u>

Business-Type Activities:

Maryland Department of Housing and Community Development — Infrastructure Refinancing Bonds:

2000 Infrastructure Financing bond payable note paid in semiannual payments with an increasing interest rate starting at 4.125% and ending with 5%, maturing May 1, 2029.

	\$ 699,700
Less current portion	<u>(24,700)</u>
Non-current portion	<u>\$ 675,000</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2011

5. Bonds and Notes Payable (continued)

Maryland Department of Natural Resources – Project Financing Loan:

Funds disbursed December 2006 to finance the Charlestown shoreline stabilization project. Loan is interest-free, payable in 25 annual installments of \$3,492 beginning July 1, 2007. Final maturity date is July 1, 2031.

	\$ 73,322
Less current portion	<u>(3,492)</u>
Non-current portion	<u>\$ 69,830</u>

The annual debt service requirements for the above described bonds and notes through maturity are as follows:

Governmental Activities:

<u>Fiscal Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,090	\$ 3,394	\$ 8,484
2013	5,481	3,567	9,048
2014	5,625	3,423	9,048
2015	112,229	824	113,053
2016	763	- 0 -	763
2017 – 2021	3,815	- 0 -	3,815
2022 – 2026	3,815	- 0 -	3,815
2027 – 2030	<u>3,052</u>	<u>- 0 -</u>	<u>3,052</u>
Total	<u>\$ 139,870</u>	<u>\$ 11,208</u>	<u>\$ 151,078</u>

Interest expense totaled \$2,248 for the year ended June 30, 2011.

Business-Type Activities:

<u>Fiscal years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 28,192	\$ 38,645	\$ 66,837
2013	29,592	35,491	65,083
2014	30,592	32,137	62,729
2015	31,892	30,864	62,756
2016	32,992	29,515	62,507
2017 – 2021	192,158	124,230	316,388
2022 – 2026	243,458	75,950	319,408
2027 – 2031	180,658	16,450	197,108
2032	<u>3,488</u>	<u>- 0 -</u>	<u>3,488</u>
Total	<u>\$ 773,022</u>	<u>\$ 383,282</u>	<u>\$ 1,156,304</u>

Interest expense totaled \$37,120 for the year ended June 30, 2011.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2011

6. Property, Casualty and Liability Insurance Pool

In 1989, the Town joined the Maryland Local Government Insurance Trust (the Pool), which was formed by certain Maryland municipalities in order to pool their casualty risks.

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town pays an annual premium to the Pool each year, which is calculated by an actuary. It is intended that the Pool be self-sustaining through member premiums. Additional insurance is carried through commercial companies for claims, which exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, such deficits may be made up from assessments of the participating municipalities on a pro rata basis.

The Town continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7. Operating Lease

In December 2005, the Town entered into an operating lease agreement for the lease of the Town's pier. The lease required the lessee to make certain improvements, the cost of which would affect future lease payments. Minimum rental payments for the next five years and thereafter are as follows:

2012	\$ 9,514
2013	9,800
2014	10,094
2015	10,396
2016	10,708
Thereafter	<u>819,517</u>
Total	<u>\$ 870,029</u>

8. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 7, 2011, the date the financial statements were available to be issued.

On September 14, 2011, the Town transferred \$500,000 from their under-collateralized bank accounts to the Maryland Local Government Investment Pool. Upon making this transfer, the Town was once again in compliance with its stated investment policies and the Annotated Code of the State of Maryland.

REQUIRED SUPPLEMENTARY FINANCIAL INFORMATION

TOWN OF CHARLESTOWN

Schedule of Revenue and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
TAXES				
Local property taxes				
Property taxes	\$ 360,300	\$ 360,300	361,719	\$ 1,419
Total Local Taxes	360,300	360,300	361,719	1,419
Other taxes				
Income taxes	34,000	34,000	79,073	45,073
Admissions and amusements	1,100	1,100	809	(291)
Other miscellaneous taxes	1,200	1,200	- 0 -	(1,200)
Total Other Taxes	36,300	36,300	79,882	43,582
TOTAL TAXES	396,600	396,600	441,601	45,001
LICENSES AND PERMITS				
Traders	200	200	674	474
Licenses and permits	7,250	7,250	7,360	110
Cable television rebate	13,250	13,250	12,759	(491)
Trash rebate	5,730	5,730	5,732	2
Total Licenses and Permits	26,430	26,430	26,525	95
INTERGOVERNMENTAL				
State				
County tax differential	34,075	34,075	34,075	- 0 -
State of Maryland critical areas	500	500	2,000	1,500
Grants	111,910	41,632	47,342	5,710
Total State	146,485	76,207	83,417	7,210
OTHER				
Interest income	4,350	4,350	1,712	(2,638)
Water reimbursement	90,730	90,730	90,730	- 0 -
Sewer reimbursement	39,400	39,400	39,400	- 0 -
Special fund reimbursement	45,380	45,380	45,380	- 0 -
Loan proceeds	16,790	16,790	2,922	(13,868)
Miscellaneous	700	700	1,193	493
Rental income	43,500	34,440	25,748	(8,692)
Total Other	240,850	231,790	207,085	(24,705)
PREVIOUS YEAR SURPLUS	27,500	36,560	36,560	- 0 -
TRANSFER FROM LONG-TERM SAVINGS	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL REVENUE	\$ 837,865	\$ 767,587	\$ 795,188	\$ 27,601

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT				
Administration				
Salary - regular	\$ 245,000	\$ 245,000	\$ 241,961	\$ 3,039
Payroll taxes and benefits	93,545	93,545	92,261	1,284
Presidential discretionary fund	3,200	3,200	1,647	1,553
Office supplies	4,000	4,000	4,257	(257)
Elections	500	500	590	(90)
Insurance	21,125	21,125	26,119	(4,994)
Other general government expenses	38,000	38,000	32,622	5,378
Office equipment	3,000	3,000	7,805	(4,805)
Office equipment repair and maintenance	28,500	28,500	30,566	(2,066)
Total Administration	436,870	436,870	437,828	(958)
Contract services				
Legal	3,000	3,000	5,250	(2,250)
Audit	15,800	15,800	15,143	657
Administration	2,500	2,500	2,609	(109)
Total Contract Services	21,300	21,300	23,002	(1,702)
Town buildings				
Repairs	5,000	5,000	3,208	1,792
Electric	7,130	7,130	5,585	1,545
Fuel	5,000	5,000	1,462	3,538
Telephone	4,200	4,200	4,001	199
Maintenance	4,000	4,000	3,489	511
Alarms	800	800	582	218
Historic property	35,620	38,620	21,466	17,154
Total Town Buildings	61,750	64,750	39,793	24,957
Planning and zoning				
Administration	8,000	8,000	8,428	(428)
Legal fees	2,875	2,875	1,501	1,374
Grant expenses	- 0 -	16,655	16,655	- 0 -
Total Planning and Zoning	10,875	27,530	26,584	946
General services				
Trash collection	80,000	80,000	73,814	6,186
Total General Services	80,000	80,000	73,814	6,186
TOTAL GENERAL GOVERNMENT	\$ 610,795	\$ 630,450	\$ 601,021	\$ 29,429

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund Year Ended June 30, 2011 (continued)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Fire company	\$ 11,725	\$ 11,725	\$ 12,220	\$ (495)
Police protection	58,500	58,500	55,110	3,390
Total Public Safety	70,225	70,225	67,330	2,895
PARKS AND RECREATION				
Parks and recreations				
Veterans Park improvements	1,500	1,500	1,454	46
Trinity Woods improvements	111,910	21,977	21,977	- 0 -
Fairgreen Park improvements	4,000	4,000	5,105	(1,105)
Shoreline erosion - Stone Wharf	16,790	16,790	3,685	13,105
Other improvements	4,000	4,000	2,581	1,419
Contract maintenance	1,500	1,500	2,929	(1,429)
Parks and recreation miscellaneous	1,645	1,645	- 0 -	1,645
Special events	15,500	15,500	14,106	1,394
Total Parks and Recreation	156,845	66,912	51,837	15,075
TOTAL EXPENDITURES	837,865	767,587	720,188	47,399
SUMMARY				
TOTAL REVENUES	837,865	767,587	795,188	27,601
TOTAL EXPENDITURES	837,865	767,587	720,188	47,399
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ - 0 -	\$ - 0 -	\$ 75,000	\$ (75,000)

See accompanying notes to financial statements

William J. Cronin, CPA/PFS, CFP®
Frank G. Savarese, CPA, CFP®
Benny C. Walker, CPA, CVA
Helen J. Connolly, CPA
William C. Saddler, CPA

Weyrich
Cronin
Sorra
CHARTERED



Certified Public Accountants
& Business Consultants

October 7, 2011

To the Town Commissioners
Town of Charlestown

In planning and performing our audit of the 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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Charlestown's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Charlestown's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Charlestown's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Town of Charlestown's internal control to be material weaknesses:

MATERIAL WEAKNESSES

Material Misstatements (Adjustments) to the Financial Statements

During the audit, we identified material misstatements (adjustments) to the financial statements for the period under audit that were not initially identified by internal controls. These adjustments were made by the accounting staff, and are included in the financial statements and audit report presented for June 30, 2011.

Inadequate Collateralization of Public Funds

The Town failed to maintain adequate collateralization of its public funds, as required by the Annotated Code of Maryland, throughout the year. Total unsecured funds as of June 30, 2011 totaled \$577,230. The funds were adequately collateralized at year end. The Town should enact policies and procedures to routinely review the collateralization limits set by their local financial institution to ensure that all funds are properly collateralized.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Town of Charlestown's internal control to be significant deficiencies:

SIGNIFICANT DEFICIENCIES

Financial Reporting Preparation

The Town relies on its external auditors to prepare its financial statements, and to assess new accounting pronouncements and determine the financial reporting impact as they relate to the Town. This issue is common in entities similar in size to the Town of Charlestown.

As a result of the other procedures described above, we have the following comments and recommendations for improvement that are not considered significant deficiencies.

OTHER MATTERS

Approval of Adjusting Journal Entries

The Office Manager is able to both prepare and record both standard and non-standard general journal entries without either review or approval of the Town Administrator or Treasurer. While we believe that the Commissioner's review of monthly financial statements mitigates this control deficiency, we also believe that controls could be increased if all entries were reviewed and approved by a second party.

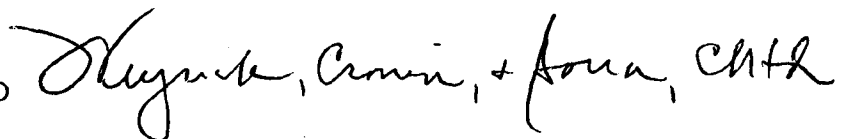
Formalization of Employee Disciplinary Policies

Through discussions with management, we noted that there was not a formal policy in place for the Town Commissioners or Administrator to communicate disciplinary action to its employees. The Commissioners should review the current employee handbook and update it regularly to include such items as required.

This communication is intended solely for the information and use of management, the Town Commissioners, and others within the Town and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

WEYRICH, CRONIN & SORRA, CHARTERED

A handwritten signature in dark ink, appearing to read "Weyrich, Cronin, & Sorra, CHTR". The signature is written in a cursive, flowing style.