

TOWN OF CHARLESTOWN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

TOWN OF CHARLESTOWN

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Independent Auditors' Report

To the Town Commissioners
Town of Charlestown

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Town of Charlestown as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Charlestown as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Independent Auditors' Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 28 through 31 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.

Weyrich, Cronin + Sorra, Chd.

December 2, 2014
Lutherville, MD

TOWN OF CHARLESTOWN

Management Discussion and Analysis June 30, 2014

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, 2014. 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 2014 fiscal year by \$5,425,430 (net position). Approximately 70% of this amount is attributable to the Utility Fund. Of the total net position, \$1,012,195 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors (111% of this amount is attributable to the Utility Fund), and \$4,401,735 is invested in capital assets, net of related debt. The remaining net position of \$11,500 has been restricted.

As of June 30, 2014, the Town's governmental funds reported a combined ending deficit fund balances of \$98,865. Of this total amount, \$321,148 is a deficit from unassigned fund balance. While *nonspendable* and *assigned* fund balances have positive balances of \$17,841 and \$204,442 respectively. As of June 30, 2014, unassigned fund balance for the General Fund (primary operating fund) was \$407,058 or 72% of total General Fund expenditures. The Town's total long-term debt, net of repayments, decreased by \$47,157 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 Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the 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 Discussion and Analysis

June 30, 2014

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 11-14. The budgetary comparison can be found as other required supplementary information on pages 28-31.

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 15-17 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 18-27 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 28-31.

Government-wide Financial Analysis

As noted earlier, net position 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 \$5,425,430 at the close of the current fiscal year. The Town of Charlestown's net position is divided into three categories - invested in capital assets, net of related debt, restricted and unrestricted net position. The largest portion of the Town's net position (81%) reflects its investment in capital assets (e.g., land, improvements, buildings, machinery, equipment, vehicles, water and sewer systems), less accumulated depreciation and any un-matured 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 position is resources that are subject to external restrictions on how they may be used.

TOWN OF CHARLESTOWN

Management Discussion and Analysis June 30, 2014

For the fiscal year ended June 30, 2014, the Town reported positive balances in all categories, except the unrestricted net position of Governmental Activities, for the Town as a whole. The unrestricted net position of Governmental Activities reported a negative balance of \$110,365.

	Net Position						Total Percentage Change 2014-2013
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2014	2013	2014	2013	2014	2013	
Assets							
Current and other assets	\$ 633,344	\$ 210,859	\$ 526,685	\$ 1,017,156	\$ 1,160,029	\$ 1,228,015	-5.54%
Capital assets	1,963,463	1,989,366	3,348,244	3,459,315	5,311,707	5,448,681	-2.51%
Other assets	(665,975)	2,773	665,975	18,808	- 0 -	21,581	-100.00%
Total assets	1,930,832	2,202,998	4,540,904	4,495,279	6,471,736	6,698,277	-3.38%
Liabilities							
Current liabilities	159,784	31,476	109,092	88,595	268,876	120,071	123.93%
Long-term liabilities outstanding	107,875	218,665	651,555	690,547	759,430	909,212	-16.47%
Total liabilities	267,659	250,141	760,647	779,142	1,028,306	1,029,283	-0.09%
Deferred Inflows of Resources	18,000	233,859	- 0 -	- 0 -	18,000	233,859	-92.30%
Net Position							
Invested in capital assets, net of related debt	1,744,038	1,761,276	2,657,697	2,730,276	4,401,735	4,491,552	-2.00%
Restricted	11,500	11,500	- 0 -	- 0 -	11,500	11,500	0.00%
Unrestricted	(110,365)	(53,778)	1,122,560	985,861	1,012,195	932,083	8.59%
Total net position	\$ 1,645,173	\$ 1,718,998	\$ 3,780,257	\$ 3,716,137	\$ 5,425,430	\$ 5,435,135	-0.18%

TOWN OF CHARLESTOWN

Management Discussion and Analysis

June 30, 2014

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

Changes in Net Position							Total
	Governmental Activities		Business-type Activities		Totals -		Percentage Change 2014-2013
	2014	2013	2014	2013	Primary Government	2013	
Revenues							
Program revenues:							
Charges for services	\$ 17,656	\$ 44,065	\$ 514,548	\$ 567,561	\$ 532,204	\$ 611,626	-12.99%
Operating Grants	90,124	45,045	- 0 -	- 0 -	90,124	45,045	100.08%
Capital Grants and Contributions	18,785	- 0 -	- 0 -	- 0 -	18,785	- 0 -	0.00%
General revenues:							
Property and other taxes	503,090	471,492	- 0 -	- 0 -	503,090	471,492	6.70%
Rent income	101,485	65,179	54,420	59,298	155,905	124,477	25.25%
Miscellaneous	29,040	17,268	- 0 -	- 0 -	29,040	17,268	68.17%
Unrestricted investment earnings	1,303	1,417	231	602	1,534	2,019	-24.02%
Special items	(9,169)	- 0 -	(626)	- 0 -	(9,795)	- 0 -	0.00%
Total revenues	752,314	644,466	568,573	627,461	1,320,887	1,271,927	3.85%
Expenses							
General government	430,166	378,126	- 0 -	- 0 -	430,166	378,126	13.76%
Public safety	84,767	80,478	- 0 -	- 0 -	84,767	80,478	5.33%
Public works	227,781	114,157	- 0 -	- 0 -	227,781	114,157	99.53%
Parks and recreation	57,847	56,883	- 0 -	- 0 -	57,847	56,883	1.69%
Water and sewer	- 0 -	- 0 -	485,645	471,964	485,645	471,964	2.90%
Total expenses	800,561	629,644	485,645	471,964	1,286,206	1,101,608	16.76%
Change in net position	(48,247)	14,822	82,928	155,497	34,681	170,319	-79.64%
Net position, beginning							3.24%
As previously reported	1,718,998	1,704,176	3,716,137	3,560,640	5,435,135	5,264,816	0.00%
Adjustment to prior periods	(25,578)	- 0 -	(18,808)	- 0 -	(44,386)	- 0 -	2.39%
Net position, beginning - restated	1,693,420	1,704,176	3,697,329	3,560,640	5,390,749	5,264,816	
Net position, ending	\$ 1,645,173	\$ 1,718,998	\$ 3,780,257	\$ 3,716,137	\$ 5,425,430	\$ 5,435,135	-0.18%

Governmental activities: General revenues for the governmental activities were \$625,749 while total expenses, net of charges for services were \$673,996. The loss in net position for governmental activities was \$48,247.

TOWN OF CHARLESTOWN

Management Discussion and Analysis June 30, 2014

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, 2014, the Town's governmental funds reported a combined ending fund balance of \$(98,865), a decrease of \$287,673 in comparison with the prior year. Of which, *unassigned fund balance* is a deficit of \$321,148 at June 30, 2014. Of the total fund balance, \$204,442, constitutes *assigned fund balance*, which is not available for spending at the government's discretion. The remainder of fund balance \$17,841 is *nonspendable* to indicate that it is not available for new spending because it has already been committed and dedicated for a restricted purpose, or is in a *nonspendable* form (prepaid expenses).

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 \$407,058. 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 72% of total General Fund expenditures. The fund balance of the Town of Charlestown's General Fund increased by \$95,262 during the current fiscal year. The Special Revenue Fund has a total fund deficit of \$716,706.

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 position of the Utility Fund totaled \$3,780,257. 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.

Date-Uncertain Revenue Notation

The Town has a future "date-uncertain" receivable which has not been reflected in the current financial statements due to the inability to assign a specific date of receipt. Management feels however, this receivable is significant enough to note as a potential receivable. The transaction in the amount of \$50,000.00 will be due from Lambdin Development, LLC, developer for Cool Springs, for well and/or water improvements. This amount is due prior to the completion of the Cool Springs Development.

TOWN OF CHARLESTOWN

Management Discussion and Analysis
June 30, 2014

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, 2014 was \$5,311,707 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery, equipment, furniture, fixtures, vehicles and water and sewer systems.

The following table of the Town's capital assets is listed below. Additional information can be found in Note 4 on page 23 of this report.

Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 420,702	\$ - 0 -	\$ 420,702
Historic Building and Artifacts	220,000	- 0 -	220,000
Construction in progress – Athletic complex	18,785	- 0 -	18,785
Building and improvements	1,225,996	- 0 -	1,225,996
Machinery and equipment	77,980	- 0 -	77,980
Water and sewer systems	- 0 -	3,348,244	3,348,244
Total net position, net of depreciation	\$ 1,963,463	\$ 3,348,244	\$ 5,311,707

Debt administration

At June 30, 2014, the Town had two notes payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds in totaling \$627,700 and \$95,100, respectively. There was also a note payable to Maryland Department of Natural Resources for \$62,847; a note payable for the December 2008 purchase of the Historic Cecil Hotel in the amount of \$111,353; 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 \$12,972, which represents the amount spent and disbursed to the Town.

Outstanding Debt

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Total net position, net of depreciation	\$ 219,425	\$ 690,547	\$ 909,972

Request 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 request 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.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through December 2, 2014, the date the financial statements were available to be issued.

TOWN OF CHARLESTOWN

Statement of Net Position June 30, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 603,802	\$ 390,397	\$ 994,199
Service charges receivable	- 0 -	100,288	100,288
Property taxes receivable	5,666	- 0 -	5,666
Due from other governments	26,100	- 0 -	26,100
Accounts receivable	27,435	- 0 -	27,435
Prepaid expenses	6,341	- 0 -	6,341
Due (to) from other funds	(36,000)	36,000	- 0 -
Total Current Assets	<u>633,344</u>	<u>526,685</u>	<u>1,160,029</u>
CAPITAL ASSETS			
Land, building and equipment	3,886,001	5,735,487	9,621,488
Construction in progress - Athletic complex	18,785	- 0 -	18,785
Less: accumulated depreciation	(1,941,323)	(2,387,243)	(4,328,566)
Total Capital Assets	<u>1,963,463</u>	<u>3,348,244</u>	<u>5,311,707</u>
OTHER ASSETS			
Advances to (from) other funds	(665,975)	665,975	- 0 -
Total Noncurrent Assets	<u>(665,975)</u>	<u>665,975</u>	<u>- 0 -</u>
TOTAL ASSETS	<u>1,930,832</u>	<u>4,540,904</u>	<u>6,471,736</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	43,668	70,100	113,768
Current portion - bond payable	- 0 -	38,992	38,992
Current portion - note payable	116,116	- 0 -	116,116
Total Current Liabilities	159,784	109,092	268,876
NONCURRENT LIABILITIES			
Security deposits	4,566	- 0 -	4,566
Bonds payable, net of current portion	- 0 -	651,555	651,555
Note payable, net of current portion	103,309	- 0 -	103,309
TOTAL LIABILITIES	<u>267,659</u>	<u>760,647</u>	<u>1,028,306</u>
DEFERRED INFLOWS OF RESOURCES			
Advance rental income	18,000	- 0 -	18,000
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>18,000</u>	<u>- 0 -</u>	<u>18,000</u>
NET POSITION			
Invested in capital assets, net of related debt	1,744,038	2,657,697	4,401,735
Restricted	11,500	- 0 -	11,500
Unrestricted	(110,365)	1,122,560	1,012,195
TOTAL NET POSITION	<u>\$ 1,645,173</u>	<u>\$ 3,780,257</u>	<u>\$ 5,425,430</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Activities
For the Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:						
GOVERNMENTAL ACTIVITIES						
General government	\$ 430,166	\$ 16,011	\$ 40,874	\$ (373,281)	\$ - 0 -	\$ (373,281)
Public safety	84,767	- 0 -	- 0 -	(84,767)	- 0 -	(84,767)
Public works	227,781	- 0 -	49,250	(178,531)	- 0 -	(178,531)
Parks and recreation	57,847	1,645	- 0 -	(37,417)	- 0 -	(37,417)
Total Governmental Activities	800,561	17,656	90,124	(673,996)	- 0 -	(673,996)
BUSINESS-TYPE ACTIVITIES						
Water and sewer system	485,645	514,548	- 0 -	- 0 -	28,903	28,903
Total Business-Type Activities	485,645	514,548	- 0 -	- 0 -	28,903	28,903
TOTAL PRIMARY GOVERNMENT	\$ 1,286,206	\$ 532,204	\$ 90,124	(673,996)	28,903	(645,093)
GENERAL REVENUES:						
Taxes:						
Property				412,891	- 0 -	412,891
Income and other				90,199	- 0 -	90,199
Rental income				101,485	54,420	155,905
Miscellaneous				29,040	- 0 -	29,040
Investment income				1,303	231	1,534
SPECIAL ITEMS:						
Loss on early termination of lease agreement				(9,169)	- 0 -	(9,169)
Loss on disposal of fixed assets				- 0 -	(626)	(626)
TOTAL GENERAL REVENUES & SPECIAL ITEMS				625,749	54,025	679,774
CHANGE IN NET POSITION				(48,247)	82,928	34,681
NET POSITION - BEGINNING						
As previously reported				1,718,998	3,716,137	5,435,135
Cumulative effect of change in accounting principle				(2,773)	(18,808)	(21,581)
Adjustments related to prior periods				(22,805)	- 0 -	(22,805)
NET POSITION - BEGINNING AS RESTATED				1,693,420	3,697,329	5,390,749
NET POSITION - ENDING				\$ 1,645,173	\$ 3,780,257	\$ 5,425,430

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Balance Sheet Governmental Funds June 30, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 320,799	\$ 283,003	\$ 603,802
Property taxes receivable	5,666	- 0 -	5,666
Due from other governments	26,100	- 0 -	26,100
Accounts receivable	22,641	4,794	27,435
Prepaid expense	6,341	- 0 -	6,341
Interfund receivables	408,594	(408,594)	- 0 -
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 790,141</u>	<u>\$ (120,797)</u>	<u>\$ 669,344</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable and accrued expenses	\$ 26,675	\$ 16,993	\$ 43,668
Due (to) from other funds	- 0 -	36,000	36,000
Security deposits	4,566	- 0 -	4,566
Advances from other funds	141,059	524,916	665,975
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>172,300</u>	<u>577,909</u>	<u>750,209</u>
 DEFERRED INFLOWS OF RESOURCES:			
Advanced rental income	- 0 -	18,000	18,000
	<u> </u>	<u> </u>	<u> </u>
 FUND BALANCES:			
Nonspendable	6,341	11,500	17,841
Assigned	204,442	- 0 -	204,442
Unassigned	407,058	(728,206)	(321,148)
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>617,841</u>	<u>(716,706)</u>	<u>(98,865)</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 790,141</u>	<u>\$ (120,797)</u>	<u>\$ 669,344</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Reconciliation of Governmental Funds to the Statement of Net Position
June 30, 2014

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ (98,865)
Amounts reported for Governmental Activities in the Statement of Net Position 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	\$ 3,904,786	
Less: accumulated depreciation	<u>(1,941,323)</u>	
		1,963,463
Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.		<u>(219,425)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,645,173</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended June 30, 2014

	General Fund	Special Revenue Fund	Totals
REVENUES			
Property taxes	\$ 412,891	\$ - 0 -	\$ 412,891
Income taxes	86,603	- 0 -	86,603
Other local taxes	814	2,782	3,596
Licenses and permits	32,753	- 0 -	32,753
Intergovernmental	59,659	49,250	108,909
Rental Income	58,865	36,787	95,652
Miscellaneous	6,040	9,206	15,246
Total Revenues	<u>657,625</u>	<u>98,025</u>	<u>755,650</u>
EXPENDITURES			
Current operating			
General government	408,056	- 0 -	408,056
Public safety	76,232	- 0 -	76,232
Parks and recreation	24,057	- 0 -	24,057
Capital expenditures	45,733	12,074	57,807
Debt service - principal	4,865	3,800	8,665
Debt service - interest	3,420	3,121	6,541
Special revenue fund	- 0 -	201,965	201,965
Total Expenditures	<u>562,363</u>	<u>220,960</u>	<u>783,323</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>95,262</u>	<u>(122,935)</u>	<u>(27,673)</u>
OTHER FINANCING SOURCES (USES)			
Early termination of lease agreement	<u>- 0 -</u>	<u>(260,000)</u>	<u>(260,000)</u>
NET CHANGE IN FUND BALANCES	95,262	(382,935)	(287,673)
FUND BALANCES - BEGINNING	<u>522,579</u>	<u>(333,771)</u>	<u>188,808</u>
FUND BALANCES - ENDING	<u>\$ 617,841</u>	<u>\$ (716,706)</u>	<u>\$ (98,865)</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, 2014

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ (287,673)
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 expense of \$83,710 exceeded capital expenditures of \$57,807 in the current period.	(25,903)
Governmental funds report principal debt payments as expenditures because they use current financial resources. Principal payments reduce long term debt in the Statement of Net Position. This is the amount of principal payments made during the year.	8,665
The payment of funds associated with the early termination of a lease agreement has resulted in the use of a current economic resource. However, in the Statement of Activities the underlying costs associated with this lease were to be recognized in a systematic manner. This is the amount by which current cash outflows of \$260,000 exceeded the loss on early termination of the lease of \$9,169.	250,831
Revenues previously deferred in the governmental activities, which were earned during the current period.	<u>5,833</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (48,247)</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Net Position - Proprietary Funds June 30, 2014

	Major Enterprise Fund Utility Fund	
<hr/>		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 390,397	
Service charges receivable	<u>100,288</u>	
Total Current Assets		\$ 490,685
CAPITAL ASSETS		
Land, building and equipment	5,735,487	
Less: accumulated depreciation	<u>(2,387,243)</u>	
Total Capital Assets		3,348,244
OTHER ASSETS		
Advances to other funds	<u>720,926</u>	<u>720,926</u>
TOTAL ASSETS		<u>4,559,855</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	70,100	
Due to other funds	18,951	
Current portion, bonds payable	<u>38,992</u>	
Total Current Liabilities		128,043
NONCURRENT LIABILITIES		
Bonds payable, net of current portion	<u>651,555</u>	
Total Noncurrent Liabilities		<u>651,555</u>
TOTAL LIABILITIES		<u>779,598</u>
NET POSITION		
Invested in capital assets, net of related debt	2,657,697	
Unrestricted	<u>1,122,560</u>	
TOTAL NET POSITION		\$ 3,780,257

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds For the Year Ended June 30, 2014

	Major Enterprise Fund Utility Fund
OPERATING REVENUES	
Service fees	<u>\$ 358,548</u>
Total Operating Revenue	\$ 358,548
OPERATING EXPENSES	
Salaries	107,898
Maintenance	32,598
User fees - county	125,444
Contracted service	38,335
Utilities	18,763
General and administrative	1,904
Miscellaneous	4,281
Depreciation	<u>136,923</u>
Total Operating Expenses	<u>466,146</u>
OPERATING LOSS	(107,598)
NONOPERATING REVENUES (EXPENSES)	
Connection fees	156,000
Rental income	54,420
Interest expense	(19,499)
Loss on disposal of fixed assets	(626)
Investment income	<u>231</u>
Total Nonoperating Revenue	<u>190,526</u>
CHANGE IN FUND NET POSITION	82,928
TOTAL NET POSITION - BEGINNING	
As previously reported	3,716,137
Cumulative effect of change in accounting principle	<u>(18,808)</u>
TOTAL NET POSITION - BEGINNING AS RESTATED	<u>3,697,329</u>
TOTAL NET POSITION - ENDING	<u>\$ 3,780,257</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Cash Flows - Proprietary Funds For the Year Ended June 30, 2014

	Major Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 347,952
Cash payments to suppliers for goods and services	(197,836)
Cash payments to general fund for salaries	<u>(107,898)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 42,218
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfer to other funds	<u>(306,618)</u>
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	(306,618)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayments of bonds	(38,492)
Rental income received	54,420
Connection fees received	156,000
Capital expenditures	(26,478)
Interest payments and administrative fees paid on bond	<u>(19,499)</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	125,951
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest	<u>231</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>231</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(138,218)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>528,615</u>
CASH AND CASH EQUIVALENTS - END	<u><u>\$ 390,397</u></u>
Reconciliation of operating loss to net cash flows from operating activities:	
Operating loss	\$ (107,598)
Add depreciation expense	\$ 136,923
(Increase) decrease in current assets	
Accounts receivable	(10,596)
Prepaid expenses	3,492
Increase in current liabilities	
Accounts payable	<u>19,997</u>
Total adjustments	<u>149,816</u>
Net cash provided by operating activities	<u><u>\$ 42,218</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2014

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

FINANCIAL REPORTING ENTITY

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities 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. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

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. 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.

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:

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

FUND ACCOUNTING (Continued)

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.

BUDGETARY DATA

Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted, after public hearings, by passing of a resolution prior to the start of each fiscal year. Transfers of appropriations between functions require approval of the Commissioners. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures.

CASH AND CASH EQUIVALENTS

The Town has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that Town funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool.

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.

ACCOUNTS RECEIVABLE

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

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. Therefore no allowance for uncollectible accounts is deemed necessary.

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.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

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 and life greater than a year. 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

Construction in progress represents costs associated with upgrades to the Town's Athletic Complex. These amounts are capitalized but will not be depreciated until such time as they are placed in service. The Town anticipates completion of the project during the year ended June 30, 2015.

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 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.

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 POSITION

In the government-wide financial statements, net position is 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 position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Position

This category represents the net position of the Town which has been restricted for a specific project or purpose by a third party. As of June 30, 2014, net position classified as restricted consisted of funds whose purpose was restricted by the donor for perpetual maintenance of the cemetery.

Unrestricted Net Position

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

FUND BALANCES

In the fund financial statements, fund balances 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, 2014, the Town maintained a balance of \$11,500, which is permanently restricted for the perpetual maintenance of the cemetery. In addition, there was \$6,341 in prepaid expenses recorded as nonspendable.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

FUND BALANCES (CONTINUED)

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2014, 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, 2014, 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, 2014, the Town Commissioners have assigned \$204,442 for various repairs and improvements to the Town's buildings, parks, cemetery, pier and streets.

Unassigned

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

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 2014, the Town of Charlestown real property tax rate was \$.3139 per \$100 of assessed value and the business personal property tax rate was \$.80 per \$100 of assessed value.

CHANGE IN ACCOUNTING PRINCIPLE

During the year, the Town implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. As a result, the Town has restated the beginning net position in the government-wide Statement of Activities, effectively decreasing net position as of July 1, 2013 by \$21,581. The decrease results from no longer deferring and amortizing bond issuance costs.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

1. Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the Statement of Net Position as "Cash and Cash Equivalents", and consists of demand deposits, money market and savings accounts, and investments in the Maryland Local Government Investment Pool. The Town also holds funds in a certificates of deposit with an initial mature date of greater than three months. They have been included in the following analysis of deposits by level of risk, as they are fully insured and collateralized.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

1. Cash and Cash Equivalents (continued)

Deposits by level of risk are:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash on hand	\$ 100	\$ - 0 -
FDIC insured	250,000	250,000
Uninsured, collateral held by pledging		
Bank's Trust Department in Town's name	275,682	318,665
Maryland Local Government Investment Pool	<u>468,417</u>	<u>466,139</u>
	<u>\$ 994,199</u>	<u>\$ 1,034,804</u>

The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2014.

2. Restricted Fund Balance

Cemetery Reserve

The Town maintains a reserve restricted to future cemetery maintenance. The balance as of June 30, 2014 was \$11,500.

3. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds". All short-term interfund receivables and payables at year ended are planned to be eliminated in the subsequent year. Net funds due to the utility fund as of June 30, 2014 consist of scheduled repayments from the Special Revenue Fund over the next twelve months totaling \$36,000.

Long-term interfund loans are classified as "advances to/from other funds". These funds were primarily utilized to fund capital projects. Any residual balances outstanding between governmental activities and business-type activities are report as "advances to other funds".

Interfund receivables and payables consist of the following:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Utility fund	\$ - 0 -	\$ 141,059
Special fund	<u>408,594</u>	<u>- 0 -</u>
	<u>408,594</u>	<u>141,059</u>
Special Fund:		
Utility fund	- 0 -	560,916
General fund	<u>- 0 -</u>	<u>408,594</u>
	<u>- 0 -</u>	<u>969,510</u>
Utility Fund:		
General fund	160,010	18,951
Special fund	<u>560,916</u>	<u>- 0 -</u>
	<u>720,926</u>	<u>18,950</u>
Total	<u>\$ 1,129,520</u>	<u>\$ 1,129,520</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

4. Capital Assets

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

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 420,702	\$ - 0 -	\$ - 0 -	\$ 420,702
Historic building & artifacts	220,000	- 0 -	- 0 -	220,000
Construction in progress – Athletic complex	- 0 -	18,785	- 0 -	18,785
Capital assets, being depreciated:				
Building and improvements	3,050,155	39,022	- 0 -	3,089,177
Machinery and equipment	156,122	- 0 -	- 0 -	156,122
Total	<u>3,846,979</u>	<u>57,807</u>	<u>- 0 -</u>	<u>3,904,786</u>
Less Accumulated Depreciation:				
Buildings and improvements	1,792,208	70,973	- 0 -	1,863,181
Machinery and equipment	65,405	12,737	- 0 -	78,142
Total	<u>1,857,613</u>	<u>83,710</u>	<u>- 0 -</u>	<u>1,941,323</u>
Total capital assets	<u>\$ 1,989,366</u>			<u>\$ 1,963,463</u>

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

General Government	\$ 18,690
Public Safety	8,535
Parks & Recreation	33,790
Public Works	22,695
Total	<u>\$ 83,710</u>

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

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets, being depreciated:				
Water systems	\$ 3,710,283	\$ 26,478	\$ (948)	\$ 3,735,813
Sewer systems	1,999,674	- 0 -	- 0 -	1,999,674
Total	<u>5,709,957</u>	<u>26,478</u>	<u>(948)</u>	<u>5,735,487</u>
Less Accumulated Depreciation:				
Water systems	1,372,610	96,294	(322)	1,468,582
Sewer systems	878,032	40,629	- 0 -	918,661
Total	<u>2,250,642</u>	<u>136,923</u>	<u>(322)</u>	<u>2,387,243</u>
Total capital assets	<u>\$ 3,459,315</u>			<u>\$ 3,348,244</u>

Depreciation expense for business-type activities for the year ended June 30, 2014 was \$136,923.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

5. Bonds and Notes Payable

The following is a summary of the bonds and notes payable as of June 30, 2014:

	Governmental Activities	Business-type Activities
Amount payable at beginning of year	\$ 228,090	\$ 729,039
Advances	- 0 -	- 0 -
Principal retirements	<u>(8,665)</u>	<u>(38,492)</u>
Amount payable at end of year	<u>\$ 219,425</u>	<u>\$ 690,547</u>

Notes payable consists of the following at June 30, 2014:

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. The 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.

	\$ 111,353
Less: current portion	<u>(111,353)</u>
Non-current portion	<u>\$ - 0 -</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. \$28,320 had been awarded for this project. However, only \$14,335 was spent and disbursed to the Town. The loan is interest-free, payable in 20 annual installments of \$763 beginning July 1 after completion of project. Final maturity date is July 1, 2030.

	\$ 12,972
Less: current portion	<u>(763)</u>
Non-current portion	<u>\$ 12,209</u>

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

Funds were disbursed in February 2013 and May 2013 to finance the Town Hall Drainage Project totaling \$100,000. The note will be paid in annual principal payments ranging from \$3,800 to \$7,100 during the course of the loan. Interest is paid semiannually with an increasing interest rate starting at 1.41% and ending with 3.94%. Final maturity date is May 1, 2032.

	\$ 95,100
Less: current portion	<u>(4,000)</u>
Non-current portion	<u>\$ 91,100</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2014

5. Bonds and Notes Payable (continued)

Business-Type Activities:

Maryland Department of Housing and Community Development - Infrastructure Refinancing Bonds:
Funds were disbursed in May 2012 to refinance a 2000 Infrastructure Financing bond payable. The note will be paid in annual principal payments ranging from \$35,000 to \$52,000 during the course of the loan. Interest is paid semiannually with an increasing interest rate starting at 1.41% and ending with 3.94%. Final maturity date is May 1, 2029.

	\$ 627,700
Less: current portion	<u>(35,500)</u>
Non-current portion	<u>\$ 592,200</u>

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.

	\$ 62,847
Less: current portion	<u>(3,492)</u>
Non-current portion	<u>\$ 59,355</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>
2015	\$ 116,116	\$ 6,431	\$ 122,547
2016	5,263	2,951	8,214
2017	5,263	2,882	8,145
2018	5,263	2,804	8,067
2019	5,263	2,716	7,979
2020 – 2024	22,552	9,596	32,148
2025 – 2029	31,315	8,254	39,569
2030 – 2032	<u>28,390</u>	<u>2,636</u>	<u>31,026</u>
Total	<u>\$ 219,425</u>	<u>\$ 38,270</u>	<u>\$ 257,695</u>

Interest expense totaled \$6,541 for the year ended June 30, 2014.

Business-Type Activities:

<u>Fiscal years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 38,992	\$ 18,597	\$ 57,589
2016	38,992	18,096	57,088
2017	39,792	17,549	57,341
2018	40,492	16,918	57,410
2019	40,992	16,200	57,192
2020 – 2024	221,658	64,896	286,554
2025 – 2029	259,158	28,258	287,416
2030 – 2032	<u>10,471</u>	<u>- 0 -</u>	<u>10,471</u>
Total	<u>\$ 690,547</u>	<u>\$ 180,514</u>	<u>\$ 871,061</u>

Interest expense totaled \$19,499 for the year ended June 30, 2014.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2014

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. Rental Income and Early Termination of Lease Agreement

The Town is party to several lease agreements involving various buildings, land and amenities owned by the Town. Lease terms range from one year to 75 years, with various options for renewal. Annual base rental fees range from \$1 to \$36,000.

Future minimum rentals to be received under these leases are as follows:

Fiscal year ending June 30, 2015	\$	139,857
2016		111,337
2017		111,337
2018		86,649
2019		86,649
Thereafter		<u>305,496</u>
Total	\$	<u>841,325</u>

In December 2013, the Town entered into negotiations to terminate an existing leasing arrangement with a local marina. The original lease required the lessee to make certain improvements, the cost of which affected future lease payments. As part of the termination agreement, the Town reimbursed the former lessee \$260,000, based on an estimate of the fair value of the improvements which reverted to the Town. The Statement of Activities reports a loss on early termination of lease agreement of \$9,169, which represents the difference between the unamortized portion of deferred inflow of revenues as of December 2013 of \$250,831 and the negotiated payment of \$260,000.

8. Deferred Compensation Plan

The Town offers to its employees a deferred compensation plan in accordance with Section 457(b) of the Internal Revenue Code. The plan is available to the Town's employees after one year of eligible service and allows the participants to defer a portion of their current income until future years to shelter such funds and earnings from state and federal taxation until withdrawal. Participation in the plan is optional. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. All contributions to the plan are immediately 100% vested. In addition to employee contributions, the Town will match employee contributions of up to 10% of compensation. For the year ended June 30, 2014 the Town matched employee contributions of \$18,011.

All amounts of compensation deferred under the plan and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The plan custodian, State Street Bank & Trust, is the trustee of the investments.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2014

9. Restatement of Beginning Balances

Change in Accounting Principles:

The Town adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the Town has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013 by \$2,773 in the governmental activities and \$18,808 in the business-type activities. The decrease results from no longer deferring and amortizing bond issuance costs.

Prior Period Adjustments:

The Town has determined that certain transactions were recorded incorrectly in a prior year. In the government-wide Statement of Net Position, the Town had understated the value of deferred inflow of revenue related to certain improvements to the property, as detailed in Note 7. The revenue recognized in the prior year was erroneously overstated by \$22,805. The result of this error was the understatement of deferred inflow of revenue as of July 1, 2013 of \$22,805.

10. Commitments

In June 2014, the Town entered into a contract in the amount of \$75,140 for updates to the Town's Athletic Complex. As of June 30, 2014, \$18,785 has been paid towards progress on this contract. The Town will receive grant funds to cover all remaining cost on the contract from the State of Maryland.

11. Subsequent Events

On October 29, 2014 the Town fulfilled its obligation related to a Deed of Trust Note which was secured by the Historic Cecil Hotel (see Note 5).

In preparing these financial statements, management has evaluated events and transactions for potential recognition through December 2, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
TAXES				
Local property taxes				
Property taxes	\$ 394,780	\$ 397,545	\$ 412,891	\$ 15,346
Total Local Taxes	394,780	397,545	412,891	15,346
Other taxes				
Income taxes	70,615	70,615	86,603	15,988
Admissions and amusements	847	847	814	(33)
Total Other Taxes	71,462	71,462	87,417	15,955
TOTAL TAXES	466,242	469,007	500,308	31,301
LICENSES AND PERMITS				
Traders	275	275	552	277
Licenses and permits	21,115	21,115	15,459	(5,656)
Cable television rebate	13,215	16,740	16,742	2
Total Licenses and Permits	34,605	38,130	32,753	(5,377)
INTERGOVERNMENTAL				
County tax differential	34,288	34,288	34,288	- 0 -
County trash rebate	4,585	4,585	4,586	1
State of MD critical areas	2,000	2,000	2,000	- 0 -
State of MD grants	- 0 -	- 0 -	18,785	18,785
Total State	40,873	40,873	59,659	18,786
OTHER				
Interest income	938	938	497	(441)
Miscellaneous	4,085	4,440	5,543	1,103
Rental income	52,615	91,460	58,865	(32,595)
Total Other	57,638	96,838	64,905	(31,933)
TRANSFER (TO) FROM LONG-TERM SAVINGS	- 0 -	38,270	- 0 -	(38,270)
TRANSFER FROM UTILITY FUND	- 0 -	224,000	- 0 -	(224,000)
TOTAL REVENUE	\$ 599,358	\$ 907,118	\$ 657,625	\$ (249,493)

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund (continued) Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT				
Administration				
Salary - regular	\$ 217,055	\$ 217,055	\$ 224,308	\$ (7,253)
Payroll taxes and benefits	90,955	94,730	102,608	(7,878)
Salary, payroll tax and benefits reimbursements-other funds	(90,450)	(90,450)	(157,683)	67,233
Presidential discretionary fund	3,000	3,000	2,278	722
Office supplies	3,000	3,000	2,629	371
Elections	625	625	556	69
Insurance	26,225	26,225	12,553	13,672
Other general government expenses	30,550	30,550	33,407	(2,857)
Office equipment	500	500	447	53
Office equipment repair and maintenance	24,205	24,205	1,618	22,587
Vehicle reimbursement	11,900	11,900	11,900	- 0 -
Total Administration	317,565	321,340	234,621	86,719
Contract services				
Legal	3,000	3,000	840	2,160
Audit	16,080	16,605	16,602	3
Administration	2,740	2,877	2,877	- 0 -
Total Contract Services	21,820	22,482	20,319	2,163
Town buildings				
Repairs	4,000	4,000	3,408	592
Electric	6,120	6,300	5,789	511
Fuel	5,700	5,700	2,556	3,144
Telephone	3,300	3,300	3,404	(104)
Maintenance - improvements	1,575	299,600	59,063	240,537
Maintenance - contracts	5,800	5,800	6,610	(810)
Alarms	585	710	707	3
Debt service	8,285	8,285	8,285	- 0 -
Historic property	8,610	8,610	6,578	2,032
Total Town Buildings	43,975	342,305	96,400	245,905
Planning and zoning				
Administration	10,000	10,000	8,404	1,596
Legal fees	7,423	7,423	6,384	1,039
Total Planning and Zoning	17,423	17,423	14,788	2,635
General services				
Trash collection	100,440	100,440	95,946	4,494
Total General Services	100,440	100,440	95,946	4,494
TOTAL GENERAL GOVERNMENT	\$ 501,223	\$ 803,990	\$ 462,074	\$ 341,916

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund (continued) Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Fire company	\$ 10,800	\$ 10,800	\$ 10,800	\$ - 0 -
Police protection	58,500	58,500	65,432	(6,932)
Total Public Safety	69,300	69,300	76,232	(6,932)
PARKS AND RECREATION				
Parks and recreations				
Electricity	(260)	1,040	1,026	14
Veterans Park improvements	1,000	1,000	409	591
Trinity Woods improvements	150	150	- 0 -	150
Fairgreen Park improvements	1,342	1,342	196	1,146
Shoreline erosion - Stone Wharf	763	763	- 0 -	763
Other improvements	1,000	2,000	1,800	200
Contract maintenance	18,340	18,340	16,424	1,916
Parking	- 0 -	815	815	- 0 -
Parks and recreation other	- 0 -	- 0 -	4	(4)
Special events	4,500	4,500	3,383	1,117
Total Parks and Recreation	26,835	29,950	24,057	5,893
TRANSFER TO SPECIAL REVENUE - STREETS	2,000	3,878	- 0 -	3,878
TOTAL EXPENDITURES	<u>\$ 599,358</u>	<u>\$ 907,118</u>	<u>\$ 562,363</u>	<u>\$ 344,755</u>
SUMMARY				
TOTAL REVENUES	\$ 599,358	\$ 907,118	\$ 657,625	\$ (249,493)
TOTAL EXPENDITURES	599,358	907,118	562,363	344,755
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 95,262</u>	<u>\$ 95,262</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2014

Formal budgetary accounting is employed as a management control for the Town's General, Special Revenue and Utility Funds. The annual budget for the General and Special Revenue Funds are 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 US GAAP, except that depreciation is not considered.

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

The budgets for the Special Revenue and Utility Funds are used primarily as a management tool and are 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.

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis	\$ 907,118	\$ 907,118
Transfer to Special Revenue - Streets	- 0 -	(3,878)
Transfer from Utility Fund	(224,000)	- 0 -
Transfer from long-term savings	<u>(38,270)</u>	<u>- 0 -</u>
GAAP basis	<u>\$ 644,848</u>	<u>\$ 903,240</u>

The legal level of budgetary control is at the level of general classification of expenditure. The Town exceeded its budget at June 30, 2014 as follows:

Public safety	\$ 6,932
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