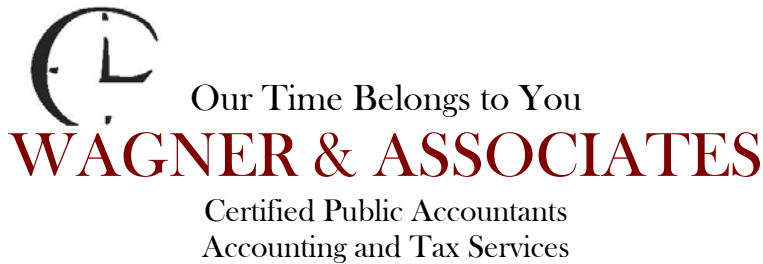


**TOWN OF CHARLESTOWN**  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017

# TOWN OF CHARLESTOWN

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## INDEPENDENT AUDITOR'S 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, 2017, 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.

### **Auditor's 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, 2017, and the respective changes in financial

position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

##### *Required 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 3-8 and 29-32 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.

*Wagner & Associates, CPA, LLC*

Wagner & Associates, CPA, LLC

Rising Sun, Maryland

November 13, 2017

## TOWN OF CHARLESTOWN

### Management Discussion and Analysis June 30, 2017

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, 2017. 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 2017 fiscal year by \$5,826,495 (net position). Approximately 69% of this amount is attributable to the Utility Fund. Of the total net position, \$1,461,052 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors (114% of this amount is attributable to the Utility Fund), and \$4,353,943 is invested in capital assets, net of related debt. The remaining net position of \$11,500 has been restricted.

As of June 30, 2017, the Town's governmental funds reported a combined ending deficit fund balance of \$193,418. *Nonspendable* and *assigned* fund balances have positive balances of \$11,500 and \$96,927, respectively, while \$302,222 is a deficit from unassigned fund balance. As of June 30, 2017, unassigned fund balance for the General Fund (primary operating fund) was \$302,222 or 36% of total General Fund expenditures.

The Town's total long-term debt, net of issuance and repayments, decreased by \$26,072 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; this can be found on pages 9-10. 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, 2017

### **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 Fund.

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 all Funds. 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 29-34.

### **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 18-28 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 and Fund as *required supplementary information* on pages 29-34.

### **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 \$5,826,495 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 (75%) 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, 2017

For the fiscal year ended June 30, 2017, 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 \$201,374.

	Net Position						Total Percentage Change 2017-2016
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2017	2016	2017	2016	2017	2016	
<b>Assets</b>							
Current and other assets	\$ 489,650	\$ 492,357	\$ 1,083,677	\$ 738,047	\$ 1,573,327	\$ 1,230,404	27.87%
Capital assets	2,238,193	2,249,086	2,930,590	3,069,808	5,168,783	5,318,894	-2.82%
Other assets	(646,011)	(835,340)	646,011	835,340	- 0 -	- 0 -	0.00%
<b>Total assets</b>	<u>2,081,832</u>	<u>1,906,103</u>	<u>4,660,278</u>	<u>4,643,195</u>	<u>6,742,110</u>	<u>6,549,298</u>	2.94%
<b>Liabilities</b>							
Current Liabilities	37,039	39,144	103,430	96,368	140,469	135,512	3.66%
Long-term liabilities outstanding	238,540	231,496	536,606	576,539	775,146	808,035	-4.07%
<b>Total liabilities</b>	<u>275,579</u>	<u>270,640</u>	<u>640,036</u>	<u>672,907</u>	<u>915,615</u>	<u>943,547</u>	-2.96%
<b>Net Position</b>							
Invested in capital assets, net of related debt	1,996,127	2,018,385	2,357,816	2,457,243	4,353,943	4,475,628	-2.72%
Restricted	11,500	11,500	- 0 -	- 0 -	11,500	11,500	0.00%
Unrestricted	(201,374)	(394,422)	1,662,426	1,513,045	1,461,052	1,118,623	30.61%
<b>Total net position</b>	<u>\$ 1,806,253</u>	<u>\$ 1,635,463</u>	<u>\$ 4,020,242</u>	<u>\$ 3,970,288</u>	<u>\$ 5,826,495</u>	<u>\$ 5,605,751</u>	3.94%

**TOWN OF CHARLESTOWN**

Management Discussion and Analysis

June 30, 2017

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

	Changes in Net Position						Total Percentage Change 2017-2016
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2017	2016	2017	2016	2017	2016	
Revenues							
Program revenues:							
Charges for services	\$ 19,109	\$ 19,290	\$ 581,701	\$ 654,949	\$ 600,810	\$ 674,239	-10.89%
Operating Grants and Contributions	100,474	95,629	- 0 -	- 0 -	100,474	95,629	5.07%
Capital Grants and Contributions	9,364	- 0 -	- 0 -	- 0 -	9,364	- 0 -	0.00%
General revenues:							
Property and other taxes	692,681	582,144	- 0 -	- 0 -	692,681	582,144	18.99%
Rent income	153,516	162,601	- 0 -	- 0 -	153,516	162,601	-5.59%
Miscellaneous	33,347	36,326	- 0 -	- 0 -	33,347	36,326	-8.20%
Unrestricted investment earnings	1,413	1,777	1,864	266	3,277	2,043	60.40%
<b>Total revenues</b>	<b>1,009,904</b>	<b>897,767</b>	<b>583,565</b>	<b>655,215</b>	<b>1,593,469</b>	<b>1,552,982</b>	<b>2.61%</b>
Expenses							
General government	531,630	567,654	- 0 -	- 0 -	531,630	567,654	-6.35%
Public safety	85,102	76,814	- 0 -	- 0 -	85,102	76,814	10.79%
Public works	135,812	205,590	- 0 -	- 0 -	135,812	205,590	-33.94%
Parks and recreation	86,570	74,434	- 0 -	- 0 -	86,570	74,434	16.30%
Water and sewer	- 0 -	- 0 -	533,611	488,582	533,611	488,582	9.22%
<b>Total expenses</b>	<b>839,114</b>	<b>924,492</b>	<b>533,611</b>	<b>488,582</b>	<b>1,372,725</b>	<b>1,413,074</b>	<b>-2.86%</b>
<b>Change in Net Position</b>	<b>170,790</b>	<b>(26,725)</b>	<b>49,954</b>	<b>166,633</b>	<b>220,744</b>	<b>139,908</b>	<b>57.78%</b>
Net position, beginning	1,635,463	1,662,188	3,970,288	3,803,655	5,605,751	5,465,843	2.56%
<b>Net position, ending</b>	<b>\$ 1,806,253</b>	<b>\$ 1,635,463</b>	<b>\$ 4,020,242</b>	<b>\$ 3,970,288</b>	<b>\$ 5,826,495</b>	<b>\$ 5,605,751</b>	<b>3.94%</b>

Governmental activities: General revenues for the governmental activities were \$880,957 while total expenses, net of charges for services were \$710,167. The income in net position for governmental activities was \$170,790.



## TOWN OF CHARLESTOWN

Management Discussion and Analysis  
June 30, 2017

### 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. As of June 30, 2017, the Town's governmental funds reported an ending fund balance deficit of \$193,418, of which \$302,222 is a deficit *unassigned fund balance*. In comparison with the prior year this represents an increase of \$240,499. Of the total fund balance, \$96,927 constitutes *assigned fund balance*, which is not 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.

### 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 \$4,020,242. 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 supplementary 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 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, 2017

**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, 2017 was \$5,168,783 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery, equipment, furniture, fixtures, vehicles, as well as, 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 pages 23-24 of this report.

**Capital Assets**  
(net of depreciation)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land – non-depreciable	\$ 867,802	\$ - 0 -	\$ 867,802
Historic buildings and artifacts – non-depreciable	50,000	- 0 -	50,000
Construction in progress	112,681	- 0 -	112,681
Building and improvements	1,085,087	- 0 -	1,085,087
Machinery and equipment	122,623	- 0 -	122,623
Water and sewer systems	<u>- 0 -</u>	<u>2,930,590</u>	<u>2,930,590</u>
<b>Total capital assets, net of depreciation</b>	<u>\$ 2,238,193</u>	<u>\$ 2,930,590</u>	<u>\$ 5,168,783</u>

**Debt administration**

At June 30, 2017, the Town had three notes payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds totaling \$520,400, \$82,100 and \$117,000, respectively. There was also a note payable to Maryland Department of Natural Resources for \$63,057; two notes payable for purchases of the new vehicle in the amount of \$7,089 and \$25,194; 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 \$11,446.

**Outstanding Debt**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Total outstanding debt</b>	<u>\$ 242,066</u>	<u>\$ 572,774</u>	<u>\$ 814,840</u>

**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.

**TOWN OF CHARLESTOWN**

Statement of Net Position  
June 30, 2017

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 477,485	\$ 928,414	\$ 1,405,899
Property taxes receivable	1,910	- 0 -	1,910
Due from other governments	14,331	- 0 -	14,331
Accounts receivable	4,409	- 0 -	4,409
Bond proceeds held in escrow	11,145	- 0 -	11,145
Service charges receivable	- 0 -	135,256	135,256
Prepaid expenses	377	- 0 -	377
Due (to) from other funds	(20,007)	20,007	- 0 -
Total Current Assets	<u>489,650</u>	<u>1,083,677</u>	<u>1,573,327</u>
<b>CAPITAL ASSETS</b>			
Land - non-depreciable	867,802	- 0 -	867,802
Historic buildings and artifacts - non-depreciable	50,000	- 0 -	50,000
Construction in progress	112,681	- 0 -	112,681
Building and equipment	3,428,025	5,735,487	9,163,512
Less: accumulated depreciation	<u>(2,220,315)</u>	<u>(2,804,897)</u>	<u>(5,025,212)</u>
Total Capital Assets	<u>2,238,193</u>	<u>2,930,590</u>	<u>5,168,783</u>
<b>OTHER ASSETS</b>			
Advances to (from) other funds	<u>(646,011)</u>	<u>646,011</u>	<u>- 0 -</u>
Total Noncurrent Assets	<u>(646,011)</u>	<u>646,011</u>	<u>- 0 -</u>
<b>TOTAL ASSETS</b>	<u>2,081,832</u>	<u>4,660,278</u>	<u>6,742,110</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	17,093	62,938	80,031
Current portion - long term obligations	<u>19,946</u>	<u>40,492</u>	<u>60,438</u>
Total Current Liabilities	37,039	103,430	140,469
<b>NONCURRENT LIABILITIES</b>			
Security deposits	2,500	- 0 -	2,500
Long term obligations	<u>236,040</u>	<u>536,606</u>	<u>772,646</u>
<b>TOTAL LIABILITIES</b>	<u>275,579</u>	<u>640,036</u>	<u>915,615</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	1,996,127	2,357,816	4,353,943
Restricted	11,500	- 0 -	11,500
Unrestricted	<u>(201,374)</u>	<u>1,662,426</u>	<u>1,461,052</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,806,253</u>	<u>\$ 4,020,242</u>	<u>\$ 5,826,495</u>

See accompanying notes to financial statements

**TOWN OF CHARLESTOWN**

Statement of Activities  
For the Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>FUNCTIONS/PROGRAMS:</b>							
<b>GOVERNMENTAL ACTIVITIES</b>							
General government	\$ 531,630	\$ 17,219	\$ 43,464	\$ - 0 -	\$ (470,947)	\$ - 0 -	\$ (470,947)
Public safety	85,102	- 0 -	- 0 -	- 0 -	(85,102)	- 0 -	(85,102)
Public works	135,812	- 0 -	57,010	- 0 -	(78,802)	- 0 -	(78,802)
Parks and recreation	86,570	1,890	- 0 -	9,364	(75,316)	- 0 -	(75,316)
Total Governmental Activities	<u>839,114</u>	<u>19,109</u>	<u>100,474</u>	<u>9,364</u>	<u>(710,167)</u>	<u>- 0 -</u>	<u>(710,167)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water and sewer system	533,611	581,701	- 0 -	- 0 -	- 0 -	48,090	48,090
Total Business-Type Activities	<u>533,611</u>	<u>581,701</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>48,090</u>	<u>48,090</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 1,372,725</u>	<u>\$ 600,810</u>	<u>\$ 100,474</u>	<u>\$ 9,364</u>	<u>(710,167)</u>	<u>48,090</u>	<u>(662,077)</u>
<b>GENERAL REVENUES:</b>							
Taxes:							
Property					462,502	- 0 -	462,502
Income and other					230,179	- 0 -	230,179
Rental income					153,516	- 0 -	153,516
Miscellaneous					33,347	- 0 -	33,347
Investment income					1,413	1,864	3,277
TOTAL GENERAL REVENUES					<u>880,957</u>	<u>1,864</u>	<u>882,821</u>
<b>CHANGE IN NET POSITION</b>					<u>170,790</u>	<u>49,954</u>	<u>220,744</u>
<b>NET POSITION - BEGINNING</b>					<u>1,635,463</u>	<u>3,970,288</u>	<u>5,605,751</u>
<b>NET POSITION - ENDING</b>					<u>\$ 1,806,253</u>	<u>\$ 4,020,242</u>	<u>\$ 5,826,495</u>

See accompanying notes to financial statements

**TOWN OF CHARLESTOWN**

Balance Sheet  
Governmental Funds  
June 30, 2017

ASSETS

Cash and cash equivalents	\$	477,485
Property taxes receivable		1,910
Due from other governments		14,331
Accounts receivable		4,409
Bond proceeds held in escrow		11,145
Prepaid expense		377
		377

TOTAL ASSETS		\$ 509,657
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES:

Accounts payable and accrued expenses	\$	17,093
Due to other funds		20,007
Security deposits		2,500
Advances from other funds		646,011
		646,011

Total Liabilities		\$ 685,611
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DEFERRED INFLOWS OF RESOURCES:

Unavailable property taxes		1,910
Unavailable loan proceeds		11,145
Unavailable other local tax income		4,409
		4,409

Total deferred inflows of resources		17,464
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FUND BALANCES:

Nonspendable		11,877
Assigned		96,927
Unassigned		(302,222)
		(302,222)

Total Fund Balances		(193,418)
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TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		\$ 509,657
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**TOWN OF CHARLESTOWN**

Reconciliation of Governmental Funds to the Statement of Net Position  
June 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ (193,418)
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	\$ 4,458,508	
Less: accumulated depreciation	<u>(2,220,315)</u>	2,238,193
Receivables that are measurable but not collected within 60 days are not considered available for use in the near term, and therefore, are not reported in the governmental funds.		
		6,319
Liabilities associated with compensated absences are not payable in the current period and are not reported in the governmental funds.		
		(13,920)
Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.		
		(242,066)
Loan proceeds associated with the acquisition of capital assets not available for reimbursement are not reported in the governmental funds		
		<u>11,145</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 1,806,253</u>

**TOWN OF CHARLESTOWN**

Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Total
<b>REVENUES</b>			
Property taxes	\$ 462,966	\$ - 0 -	\$ 462,966
Income taxes	194,105	- 0 -	194,105
Other local taxes	36,074	- 0 -	36,074
Licenses and permits	39,523	- 0 -	39,523
Intergovernmental	109,838	- 0 -	109,838
Rental Income	165,107	- 0 -	165,107
Miscellaneous	14,346	- 0 -	14,346
	1,021,959	- 0 -	1,021,959
<b>EXPENDITURES</b>			
Current operating			
General government	503,941	- 0 -	503,941
Public safety	76,567	- 0 -	76,567
Public works	108,545	- 0 -	108,545
Parks and recreation	42,697	- 0 -	42,697
Capital expenditures	87,597	- 0 -	87,597
Debt service - principal	19,788	- 0 -	19,788
Debt service - interest	7,078	- 0 -	7,078
	846,213	- 0 -	846,213
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>175,746</b>	<b>- 0 -</b>	<b>175,746</b>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from long-term obligations	64,753	- 0 -	64,753
Transfers from (to) other funds	(796,329)	796,329	- 0 -
	(731,576)	796,329	64,753
<b>NET CHANGE IN FUND BALANCES</b>	(555,830)	796,329	240,499
<b>FUND BALANCES - BEGINNING</b>	362,412	(796,329)	(433,917)
<b>FUND BALANCES - ENDING</b>	\$ (193,418)	\$ - 0 -	\$ (193,418)

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, 2017

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 240,499
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 \$98,490 exceeded capital capital expenditures of \$87,597 in the current period.	(10,893)
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.	19,788
Governmental funds report compensated absences when paid. However, in the Statement of Activities, they are recorded when earned. This is the excess of the amount earned over the amount paid for the year.	(1,796)
Governmental funds recognize revenues if they are received within sixty days of year end. However, in the Statement of Activities, they are recorded when earned. This is the amount by which revenues received in the current period exceeded revenues earned but not received in the current period.	
Property taxes	(464)
Other local taxes	(11,591)
Governmental funds report proceeds from long term obligations as an other financing source. However, proceeds increase long term obligations in the Statement of Net Position. This is the amount of proceeds from long term obligations during the year.	<u>(64,753)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 170,790</u>



**TOWN OF CHARLESTOWN**

Statement of Net Position - Proprietary Funds  
June 30, 2017

		Major Enterprise Fund Utility Fund
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 928,414	
Service charges receivable	135,256	
Due from other funds	20,007	
Total Current Assets		\$ 1,083,677
<b>CAPITAL ASSETS</b>		
Land, building and equipment	5,735,487	
Less: accumulated depreciation	(2,804,897)	
Total Capital Assets		2,930,590
<b>OTHER ASSETS</b>		
Advances to other funds	646,011	
		646,011
<b>TOTAL ASSETS</b>		<b>4,660,278</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	62,938	
Current portion - long term obligations	40,492	
Total Current Liabilities		103,430
<b>NONCURRENT LIABILITIES</b>		
Long term obligations	536,606	
Total Noncurrent Liabilities		536,606
<b>TOTAL LIABILITIES</b>		<b>640,036</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	2,357,816	
Unrestricted	1,662,426	
<b>TOTAL NET POSITION</b>		<b>\$ 4,020,242</b>

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, 2017

		Major Enterprise Fund Utility Fund
OPERATING REVENUES		
Service fees	\$ 469,701	
Total Operating Revenue		\$ 469,701
OPERATING EXPENSES		
Maintenance	51,215	
User fees - county	147,022	
Contracted service	44,568	
Utilities	15,329	
General and administrative	118,412	
Depreciation	139,218	
Total Operating Expenses		515,764
OPERATING LOSS		(46,063)
NONOPERATING REVENUES (EXPENSES)		
Connection fees	112,000	
Interest expense	(17,847)	
Investment income	1,864	
Total Nonoperating Revenue		96,017
		49,954
CHANGE IN FUND NET POSITION		3,970,288
TOTAL NET POSITION - BEGINNING		\$ 4,020,242
TOTAL NET POSITION - ENDING		\$ 4,020,242

See accompanying notes to financial statements

**TOWN OF CHARLESTOWN**

Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2017

		Major Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 458,864	
Cash payments to suppliers for goods and services	(370,184)	
Cash payments to general fund for salaries	558	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 89,238
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from other funds		169,322
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		169,322
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayments of bonds	(39,791)	
Connection fees received	112,000	
Proceeds from sale of fixed assets		
Interest payments and administrative fees paid on bond	(17,847)	
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		54,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest		1,864
NET CASH FLOWS FROM INVESTING ACTIVITIES		1,864
NET INCREASE IN CASH AND CASH EQUIVALENTS		314,786
CASH AND CASH EQUIVALENTS - BEGINNING		613,628
CASH AND CASH EQUIVALENTS - END		\$ 928,414
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss		\$ (46,063)
Add depreciation expense	\$ 139,218	
Add accrued compensated absences	558	
Increase in current assets		
Accounts receivable	(10,837)	
Increase in current liabilities		
Accounts payable	6,362	
Total adjustments		135,301
Net cash provided by operating activities		\$ 89,238

See accompanying notes to financial statements

# TOWN OF CHARLESTOWN

Notes to Financial Statements  
June 30, 2017

## 1. Summary of Significant Accounting Policies

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 is located in Cecil County and provides the following services as authorized by its charter: General Government, Public Safety, Public Works, Parks and Recreation, and Water and Sewer Services. A substantial portion of the Town's revenue is received from the property and income taxes related to the residents and businesses of the Town and services provided by its water and sewer systems.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility or the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based on this criteria, the Town has concluded that there are no component unit relationships that are required to be presented in these financial statements.

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. 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 government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. 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 for which they are levied, while grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services and facilities; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets, when applicable. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government-wide statements incorporates data from governmental funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for each major governmental and proprietary fund. There are no fiduciary funds held by the Town.

Governmental fund statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accrual include: Income tax receipts, property taxes and capital grants. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). In general, all other revenues are considered to be measurable and available when cash is received.

# TOWN OF CHARLESTOWN

Notes to Financial Statements  
June 30, 2017

## 1. Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services provided. Principal operating expenses are the costs of providing services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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-end are planned to be eliminated in the subsequent year. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." However, internal eliminations do not include water and sewage services provided to the Town Hall. Reimbursements are reported as reductions to expenses. Long-term interfund loans are classified as "advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported as "advances to (from) other funds."

### Fund Types and Major Funds

The accounts of the Town are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds in either fund category.

Beginning July 1, 2016, the Commissioners voted to merge the Special Revenue Fund with the General Fund.

The Town reports the following major governmental funds:

*The General Fund* – This is the primary operating fund of the Town. It accounts for all of the financial resources and the legally authorized activities of the Town except for those required to be accounted for in other specialized funds. The general fund accounts for the normal operating activities of the Town. These activities are financed primarily by taxes, grants from other governments and charges for services.

The Town reports the following major proprietary fund:

*The Utility Fund* – This fund is used to account for the operations of the Town's water and sewer system. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

### 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

Cash and Cash Equivalents include demand deposits, money market and savings accounts, and investments in the Maryland Local Government Investment Pool.

**TOWN OF CHARLESTOWN**

Notes to Financial Statements  
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Property Taxes Receivable

Taxes on real estate are billed and collected on behalf of the Town by Cecil County. Cecil County then remits payment to the Town. Personal property taxes are billed and collected directly by the Town based on assessment data provided by the State of Maryland.

Due from Other Governments

Local income taxes, highway user taxes and admission and amusement taxes are collected on behalf of the Town by the State of Maryland and are remitted to the Town. Receivables from other governments primarily consist of amounts arising from transfer payments and amounts due from grantors for specific programs and capital projects.

Account Receivable

Other accounts receivable consist primarily of rental income receivables.

Service Charges Receivable

Water and sewer charges are recorded when billed, except that an amount is recorded for services rendered but not yet billed, as of the close of the fiscal year. The accrued amount is based on actual billings made subsequent to year end.

All receivables are reported at gross values. These balances are continually reviewed by Town management and are deemed fully collectible. Therefore, no allowance for uncollectible accounts is deemed necessary.

Capital Assets and Depreciation

The Town's property, buildings, equipment and infrastructure, with a cost of more than \$2,500 and an estimated useful life of more than one year, are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their fund financial statements. 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 are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The Town has been exempted from retroactively reporting its infrastructure assets. However, all future construction or major improvements to the roads, bridges, sidewalks, drainage and lighting systems for the Town will be capitalized and depreciated in a manner consistent with current policies for capital assets in the governmental and proprietary funds.

Estimated useful lives for depreciable assets are as follows:

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

Compensated Absences

Compensated absences are those earned but unused absences for which employees will be paid, such as vacation leave. Employees are granted vacation leave in varying amounts. It is the Town's policy to permit employees to accumulate earned vacation time throughout the year but may only carry 30 days over to the next calendar year. The Town pays employees unused vacation leave to the full amount earned and available at the time of employee resignation or retirement. The accumulated vacation leave liability is based on the amount that is expected to ultimately be paid. Vacation leave is accrued, as applicable, in the government-wide and proprietary financial statements as part of long term obligations. A liability is reported in governmental fund financial statements only if it has matured, for example, as a result of employee resignations and retirements.

# TOWN OF CHARLESTOWN

## Notes to Financial Statements June 30, 2017

### 1. Summary of Significant Accounting Policies (continued)

#### 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, 2017, 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 governmental 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, 2017, the Town maintained a balance of \$11,500, which is permanently restricted for the perpetual maintenance of the cemetery and \$377 of prepaid expenses.

##### *Restricted*

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2017, 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, 2017, 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. The board maintains the authority to assign funds. As of June 30, 2017, the Town Commissioners have assigned \$96,927 for various repairs and improvements to the Town's parks, cemetery, pier and streets.

##### *Unassigned*

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

In the proprietary fund 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 and has been restricted for a specific project or purpose by a third party. As of June 30, 2017, the Town did not have any assets to be reported in this category.

**TOWN OF CHARLESTOWN**

Notes to Financial Statements  
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

*Unrestricted*

This category represents the net position of the Fund and is not restricted for any project or other purpose.

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.

2. 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 accounts, savings accounts and investments in the Maryland Local Government Investment Pool (MLGIP).

The Town is a participant in the MLGIP, which was established by the State of Maryland as an investment vehicle for short-term investment of funds by local municipalities. MLGP is an SEC registered (2a-7) money market fund, which maintains a constant \$1 per share value. The MLGIP, under the control of the state treasurer, has been managed by a single financial institution. Short-term investments of the pool are reported at cost, which approximates fair value (Level 1). The fair value of the pool is the same as the value of the pool shares. As of June 30, 2017, all holdings are in cash and cash equivalents, since they are available on demand.

Credit Risk

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. The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2017, which was adopted to mitigate credit risk for the Town.

Interest Rate and Credit Risk

The Town manages interest rate and credit risk by investing primarily in short-term holdings, including demand deposits, certificates of deposit and MLGIP.

Custodial Credit Risk

The Town manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted.

Deposits by level of risk are:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash on hand	\$ 100	\$ - 0 -
FDIC insured	263,920	263,920
Uninsured, collateral held by pledging		
Bank's Trust Department in Town's name	241,807	278,255
Maryland Local Government Investment Pool	900,072	900,072
	\$ 1,405,899	\$ 1,442,247

3. Bond Proceeds Held in Escrow

The Town received a bond loan with the State of Maryland totaling \$132,302. As of June 30, 2017, the Town has an outstanding balance of \$11,145 held in an escrow account by the State of Maryland. These funds will be released as the remaining work is completed on the Long Point Erosions project.



**TOWN OF CHARLESTOWN**

Notes to Financial Statements  
June 30, 2017

4. 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-end are planned to be eliminated in the subsequent year. Net funds due to the Utility Fund as of June 30, 2017 consist of scheduled repayments from the General Fund over the next twelve months totaling \$20,007.

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 (from) other funds".

Interfund receivables and payables consisted of the following:

	Receivables	Payables
General Fund:		
Utility fund	\$ - 0 -	\$ 666,018
Utility Fund:		
General fund	666,018	- 0 -
Total	\$ 666,018	\$ 666,018

5. Capital Assets

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

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 867,802	\$ - 0 -	\$ - 0 -	\$ 867,802
Historic building & artifacts	50,000	- 0 -	- 0 -	50,000
Construction in progress	79,899	32,782	- 0 -	112,681
Capital assets, being depreciated:				
Building and improvements	3,167,528	- 0 -	- 0 -	3,167,528
Machinery and equipment	205,682	54,815	- 0 -	260,497
Total	4,370,911	87,597	- 0 -	4,458,508
Less: Accumulated Depreciation:				
Buildings and improvements	2,011,183	71,258	- 0 -	2,082,441
Machinery and equipment	110,642	27,232	- 0 -	137,874
Total	2,121,825	98,490	- 0 -	2,220,315
Total capital assets	\$ 2,249,086			\$ 2,238,193

**TOWN OF CHARLESTOWN**

Notes to Financial Statements  
June 30, 2017

5. Capital Assets (continued)

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

General Government	\$ 25,893
Public Safety	8,535
Parks & Recreation	36,795
Public Works	<u>27,267</u>
 Total	 <u>\$ 98,490</u>

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

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2017</u>
Capital assets, being depreciated:				
Water system	\$ 3,735,813	\$ - 0 -	\$ - 0 -	\$ 3,735,813
Sewer system	<u>1,999,674</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>1,999,674</u>
 Total	 <u>5,735,487</u>	 <u>- 0 -</u>	 <u>- 0 -</u>	 <u>5,735,487</u>
Less: Accumulated Depreciation:				
Water system	1,665,760	98,589	- 0 -	1,764,349
Sewer system	<u>999,919</u>	<u>40,629</u>	<u>- 0 -</u>	<u>1,040,548</u>
 Total	 <u>2,665,679</u>	 <u>139,218</u>	 <u>- 0 -</u>	 <u>2,804,897</u>
 Total capital assets	 <u>\$ 3,069,808</u>			 <u>\$ 2,930,590</u>

Depreciation expense for business-type activities for the year ended June 30, 2017 was \$139,218.

6. Long-Term Obligations

The following is a summary of long-term obligations as of June 30, 2017:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Balance at beginning of year	\$ 242,825	\$ 616,331
Increases	32,949	558
Decreases	<u>(19,788)</u>	<u>(39,791)</u>
 Balance at end of year	 <u>\$ 255,986</u>	 <u>\$ 577,098</u>
 Bonds and notes payable	 \$ 242,066	 \$ 572,774
Compensated absences	<u>13,920</u>	<u>4,324</u>
 Total long term obligations	 <u>\$ 255,986</u>	 <u>\$ 577,098</u>

**TOWN OF CHARLESTOWN**

Notes to Financial Statements  
June 30, 2017

6. Long-Term Obligations (continued)

The Town has the following bonds and notes payable at June 30, 2017:

GOVERNMENTAL ACTIVITIES

*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.

Balance outstanding as of June 30, 2017:	\$	10,683
Less: current portion		<u>(763)</u>
Non-current portion		<u><u>\$ 9,920</u></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.

Balance outstanding as of June 30, 2017:	\$	82,100
Less: current portion		<u>(4,500)</u>
Non-current portion		<u><u>\$ 77,600</u></u>

*Automobile Note:*

Funds were disbursed in October 2014 to finance the purchase of the new vehicle totaling \$15,407. The note will be paid in monthly principal payments of \$269 during the course of the loan. Interest is paid monthly with an interest rate of 1.9%. Final maturity date is October 2019.

Balance outstanding as of June 30, 2017:	\$	7,089
Less: current portion		<u>(3,125)</u>
Non-current portion		<u><u>\$ 3,964</u></u>

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

Funds were disbursed in February 2016 to finance the Long Point Erosion Project totaling \$132,203. The note will be paid in annual principal payments ranging from \$1,000 to \$8,700 during the course of the loan. Interest is paid semiannually with an increasing interest rate starting at 2.23% and ending with 4.65%. Final maturity date is May 1, 2034.

Balance outstanding as of June 30, 2017:	\$	117,000
Less: current portion		<u>(5,500)</u>
Non-current portion		<u><u>\$ 111,500</u></u>

*Automobile Note:*

Funds were disbursed in July 2016 to finance the purchase of the new vehicle totaling \$31,153. The note will be paid in monthly principal payments of \$559 during the course of the loan. Interest is paid monthly with an interest rate of 2.9%. Final maturity date is July 2021.

Balance outstanding as of June 30, 2017:	\$	25,194
Less: current portion		<u>(6,058)</u>
Non-current portion		<u><u>\$ 19,136</u></u>

**TOWN OF CHARLESTOWN**

Notes to Financial Statements  
June 30, 2017

6. Long-Term Obligations (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.

Balance outstanding as of June 30, 2017:	\$	520,400
Less: current portion		(37,000)
Non-current portion	\$	483,400

*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.

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Balance outstanding as of June 30, 2017:	\$	52,374
Less: current portion		(3,492)
Non-current portion	\$	48,873

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>
2018	\$ 19,946	\$ 7,449	\$ 27,395
2019	20,184	7,132	27,316
2020	18,961	6,716	25,677
2021	17,744	6,255	23,999
2022	11,763	5,807	17,570
2023 – 2027	63,315	23,428	86,743
2028 – 2032	73,153	12,143	85,296
2033 – 2034	17,000	1,061	18,061
Total	\$ 242,066	\$ 69,991	\$ 312,057

Interest expense totaled \$7,078 for the year ended June 30, 2017.

Business-Type Activities

<u>Fiscal years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 40,492	\$ 16,918	\$ 57,410
2019	40,992	16,200	57,192
2020	41,992	15,367	57,359
2021	42,992	14,147	57,139
2022	43,992	13,057	57,049
2023 – 2027	242,360	44,494	286,854
2028 – 2032	119,954	6,088	126,042
Total	\$ 572,774	\$ 126,271	\$ 699,045

Interest expense totaled \$17,847 for the year ended June 30, 2017.

TOWN OF CHARLESTOWN

Notes to Financial Statements  
June 30, 2017

7. Restricted Net Position

Cemetery Reserve

The Town maintains a reserve permanently restricted to future cemetery maintenance. The balance as of June 30, 2017 was \$11,500.

8. Property Taxes

Property taxes on real property are recorded as receivables and attach as an enforceable lien on property on July 1, the date levied. Semi-annual installment payments are mandatory for qualified properties unless the taxpayer chooses to pay in one installment. Qualified property is defined as "an owner-occupied principal residence". Under the semi-annual plan, one-half of the tax bill is due September 30 with the balance due on December 31. For all other properties, the bill is due in its entirety on September 30. Cecil County holds an annual property tax lien certificate sale on the first Monday in June to collect all unpaid Town and County property taxes as of that date. Personal property taxes are billed annually by the Town, based on an assessment determined by the State of Maryland. All unpaid taxes as of 90 days after the levy are subject to interest at 12% per annum.

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.

The tax rate for the fiscal year ended June 30, 2017, was \$.3334 and \$.8 per \$100 of assessed value for real and personal property, respectively.

9. Operating Lease

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, 2018	\$	116,337
2019		119,500
2020		119,500
2021		119,500
2022		119,500
Thereafter		<u>165,049</u>
Total	\$	<u>759,386</u>

10. 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. Town contributions may be amended by the Commissioners annually as part of the budget process. 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.

For the year ended June 30, 2017, 4 employees participated in the plan and the Town matched employee contributions of \$17,671.

## TOWN OF CHARLESTOWN

### Notes to Financial Statements June 30, 2017

#### 11. Risk Management

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 purchases insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Insurance is provided through the Maryland Local Government Insurance Trust (LGIT) and by commercial insurance. During the year ended June 30, 2017, there was no significant reduction in insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Maryland Local Government Insurance Trust is a total risk and cost sharing plan for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfer from the Trust's capital and surplus accounts, the Trustees determine a method to fund the deficit. The trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

#### 12. Contingencies

Most grants specify the types of expenditures for which the grants may be used. The expenditures made by the Town under some of these grants are subject to audit. To date, the Town has not been notified of any significant unallowable costs relating to its grants. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

#### 13. Environmental Concerns

The Town operates a sewer facility. If contamination from the facility occurred, the Town could become liable for the costs of remediation.

#### 14. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through November 13, 2017, 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, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>TAXES</b>				
Local property taxes				
Property taxes	\$ 462,000	\$ 462,000	\$ 462,966	\$ 966
Total Local Taxes	<u>462,000</u>	<u>462,000</u>	<u>462,966</u>	<u>966</u>
Other taxes				
Boat docking & storage user fees	46,428	46,428	35,658	(10,770)
Income taxes	100,000	100,000	194,105	94,105
Admissions and amusements	500	500	416	(84)
Total Other Taxes	<u>146,928</u>	<u>146,928</u>	<u>230,179</u>	<u>83,251</u>
<b>TOTAL TAXES</b>	<u>608,928</u>	<u>608,928</u>	<u>693,145</u>	<u>84,217</u>
<b>LICENSES AND PERMITS</b>				
Traders	0	0	309	309
Licenses and permits	14,500	14,500	17,359	2,859
Cable television rebate	15,000	15,000	21,855	6,855
Total Licenses and Permits	<u>29,500</u>	<u>29,500</u>	<u>39,523</u>	<u>10,023</u>
<b>INTERGOVERNMENTAL</b>				
County tax differential	37,881	37,881	37,881	- 0 -
County trash rebate	2,865	2,865	3,583	718
State of MD Highway user fee	15,893	15,893	57,010	41,117
State of MD critical areas	2,000	2,000	2,000	- 0 -
State of MD grants	- 0 -	- 0 -	9,364	9,364
Total State	<u>58,639</u>	<u>58,639</u>	<u>109,838</u>	<u>51,199</u>
<b>OTHER</b>				
Interest income	1,000	1,000	1,413	413
Miscellaneous	2,200	2,200	12,933	10,733
Rental income	167,024	167,024	165,107	(1,917)
Total Other	<u>170,224</u>	<u>170,224</u>	<u>179,453</u>	<u>9,229</u>
<b>ADVANCES FROM OTHER FUNDS</b>	<u>118,412</u>	<u>118,412</u>	<u>- 0 -</u>	<u>(118,412)</u>
<b>TRANSFER (TO) FROM LONG-TERM SAVINGS</b>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>
<b>TOTAL REVENUE</b>	<u>985,703</u>	<u>985,703</u>	<u>1,021,959</u>	<u>36,256</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from long-term obligations	- 0 -	- 0 -	64,753	64,753
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>	<u>\$ 985,703</u>	<u>\$ 985,703</u>	<u>\$ 1,086,712</u>	<u>\$ 101,009</u>

See accompanying notes to required supplementary information



**TOWN OF CHARLESTOWN**

Schedule of Revenues and Expenditures Budget  
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>GENERAL GOVERNMENT</b>				
Administration				
Salary - regular	\$ 219,000	\$ 219,000	\$ 219,008	\$ (8)
Payroll taxes and benefits	119,454	119,454	107,346	12,108
Salary, payroll tax and benefits reimbursements-other funds	- 0 -	- 0 -	- 0 -	- 0 -
Presidential discretionary fund	8,000	8,000	8,242	(242)
Office supplies	20,000	20,000	32,361	(12,361)
Elections	900	900	- 0 -	900
Insurance	20,750	20,750	12,897	7,853
Other general government expenses	37,200	37,200	37,200	- 0 -
Office equipment	54,000	54,000	54,815	(815)
Total Administration	<u>479,304</u>	<u>479,304</u>	<u>471,869</u>	<u>7,435</u>
Contract services				
Legal	3,500	3,500	3,910	(410)
Audit	18,000	18,000	17,750	250
Total Contract Services	<u>21,500</u>	<u>21,500</u>	<u>21,660</u>	<u>(160)</u>
Town buildings				
Repairs	4,000	4,000	5,364	(1,364)
Electric	5,000	5,000	8,019	(3,019)
Fuel	3,000	3,000	281	2,719
Telephone	4,300	4,300	5,306	(1,006)
Maintenance - improvements	18,321	18,321	18,598	(277)
Maintenance - contracts	19,000	19,000	25,642	(6,642)
Alarms	1,200	1,200	815	385
Historic property	4,500	4,500	4,680	(180)
Total Town Buildings	<u>59,321</u>	<u>59,321</u>	<u>68,705</u>	<u>(9,384)</u>
Planning and zoning				
Administration	18,000	18,000	10,714	7,286
Legal fees	5,000	5,000	2,038	2,962
Total Planning and Zoning	<u>23,000</u>	<u>23,000</u>	<u>12,752</u>	<u>10,248</u>
General services				
Trash collection	132,000	132,000	127,834	4,166
Total General Services	<u>132,000</u>	<u>132,000</u>	<u>127,834</u>	<u>4,166</u>
<b>TOTAL GENERAL GOVERNMENT</b>	<u>\$ 715,125</u>	<u>\$ 715,125</u>	<u>\$ 702,820</u>	<u>\$ 12,305</u>

See accompanying notes to required supplementary information

**TOWN OF CHARLESTOWN**

Schedule of Revenues and Expenditures Budget  
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)  
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>PUBLIC SAFETY</b>				
Fire company	\$ 16,000	\$ 16,000	\$ 15,800	\$ 200
Police protection	69,000	69,000	60,767	8,233
Total Public Safety	<u>85,000</u>	<u>85,000</u>	<u>76,567</u>	<u>8,433</u>
<b>PARKS AND RECREATION</b>				
Parks and recreations				
Electricity	1,150	1,150	1,890	(740)
Shoreline erosion - Long Point	3,000	3,000	33,739	(30,739)
Other improvements	- 0 -	- 0 -	8,797	(8,797)
Miscellaneous	- 0 -	- 0 -	1,140	(1,140)
Parking	500	500	- 0 -	500
Special events	5,000	5,000	4,261	739
Debt service	43,828	43,828	22,366	21,462
Total Parks and Recreation	<u>53,478</u>	<u>53,478</u>	<u>72,193</u>	<u>(18,715)</u>
<b>STREETS &amp; LIGHTS</b>				
Fuel	9,800	9,800	3,502	6,298
Repairs & maintenance	10,000	10,000	10,202	(202)
Road signs	1,500	1,500	184	1,316
Snow Removal	3,500	3,500	- 0 -	3,500
Street	65,000	65,000	48,067	16,933
Street lights	24,000	24,000	21,426	2,574
Debt service	4,500	4,500	4,500	- 0 -
Total Streets & Lights	<u>118,300</u>	<u>118,300</u>	<u>87,881</u>	<u>30,419</u>
<b>TOWN PIER</b>				
Electric	1,200	1,200	1,248	(48)
Legal expense	2,000	2,000	- 0 -	2,000
Repairs & maintenance	3,000	3,000	9,171	(6,171)
Miscellaneous	- 0 -	- 0 -	7,290	(7,290)
Total Town Pier	<u>6,200</u>	<u>6,200</u>	<u>17,709</u>	<u>(11,509)</u>
<b>CEMETERY</b>				
Electric	300	300	- 0 -	300
Repairs & maintenance	7,300	7,300	7,455	(155)
Total Cemetary	<u>7,600</u>	<u>7,600</u>	<u>7,455</u>	<u>145</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 985,703</u>	<u>\$ 985,703</u>	<u>\$ 964,625</u>	<u>\$ 21,078</u>
<b>SUMMARY</b>				
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>	<u>\$ 985,703</u>	<u>\$ 985,703</u>	<u>\$ 1,086,712</u>	<u>\$ 101,009</u>
<b>TOTAL EXPENDITURES</b>	<u>985,703</u>	<u>985,703</u>	<u>964,625</u>	<u>21,078</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 122,087</u>	<u>\$ 79,931</u>

See accompanying notes to required supplementary information

**TOWN OF CHARLESTOWN**

Notes to Required Supplementary Information  
June 30, 2017

Formal budgetary accounting is employed as a management control for the Town's General and Utility Funds. 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 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 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.

General Fund:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis	\$ 985,703	\$ 985,703
Advances to other funds	<u>(118,412)</u>	<u>- 0 -</u>
GAAP basis	<u>\$ 867,291</u>	<u>\$ 985,703</u>

The legal level of budgetary control is at the level of general classification of expenditure. The Town did not exceed its budget for the year ended June 30, 2017.