

TOWN OF CHARLESTOWN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

TOWN OF CHARLESTOWN

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TOWN OF CHARLESTOWN

Management Discussion and Analysis June 30, 2019

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, 2019. 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 2019 fiscal year by \$6,779,040 (net position). Approximately 66% of this amount is attributable to the Utility Fund. Of the total net position, \$2,566,746 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors (89% of this amount is attributable to the Utility Fund), and \$4,189,649 is invested in capital assets, net of related debt. The remaining net position of \$22,645 has been restricted.

As of June 30, 2019, the Town's governmental funds reported a combined ending positive fund balance of \$246,347. *Nonspendable, restricted, assigned, and unassigned* fund balances have positive balances of \$11,500, \$11,145, \$100,331, and \$123,371 respectively. As of June 30, 2019, unassigned fund balance for the General Fund (primary operating fund) was \$123,371 or 12% of total General Fund expenditures.

The Town's total long-term debt obligations, net of issuance and repayments, decreased by \$61,314 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, 2019

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 one individual governmental fund, the General Fund.

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 page 30.

Proprietary funds

The Town maintains one proprietary-type fund: an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the governmental-wide financial statements. The Town uses an enterprise fund to account for its utilities (water and sewer) activities. The basic proprietary fund financial statements can be found on pages 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 18-29 of this report.

Other information

In addition to the basic financial statements and accompanying summary and notes, this report also presents the budgetary comparison for the General and Fund as *required supplementary information* on page 30.

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 \$6,779,040 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 (62%) 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.

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Management Discussion and Analysis
June 30, 2019

For the fiscal years ended June 30, 2019 and 2018, the Town reported positive net position in all categories.

Net Position							
	Governmental Activities		Business-type Activities		Totals - Primary Government		Total Percentage Change
	2019	2018	2019	2018	2019	2018	2019-2018
Assets							
Current assets	\$ 614,460	\$ 575,714	\$ 2,068,195	\$ 1,540,463	\$ 2,682,655	\$ 2,116,177	26.77%
Capital assets	2,230,686	2,230,682	2,652,154	2,791,372	4,882,840	5,022,054	-2.77%
Other assets	(270,358)	(463,910)	270,358	463,910	- 0 -	- 0 -	0.00%
Total assets	2,574,788	2,342,486	4,990,707	4,795,745	7,565,495	7,138,231	5.99%
Liabilities							
Current Liabilities	35,525	46,384	89,575	87,664	125,100	134,048	-6.68%
Long-term liabilities outstanding	212,196	229,895	449,159	491,289	661,355	721,184	-8.30%
Total liabilities	247,721	276,279	538,734	578,953	786,455	855,232	-8.04%
Net Position							
Invested in capital assets, net of related debt	2,028,646	2,008,458	2,161,003	2,259,091	4,189,649	4,267,549	-1.83%
Restricted	22,645	11,500	- 0 -	- 0 -	22,645	11,500	96.91%
Unrestricted	275,776	71,420	2,290,970	1,957,701	2,566,746	2,029,121	26.50%
Total net position	\$ 2,327,067	\$ 2,091,378	\$ 4,451,973	\$ 4,216,792	\$ 6,779,040	\$ 6,308,170	7.46%

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Management Discussion and Analysis
June 30, 2019

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

	Changes in Net Position						
	Governmental Activities		Business-type Activities		Totals - Primary Government		Total Percentage Change
	2019	2018	2019	2018	2019	2018	2019-2018
Revenues							
Program revenues:							
Charges for services	\$ 59,248	\$ 37,998	\$ 773,258	\$ 711,417	\$ 832,506	\$ 749,415	11.09%
Operating Grants and Contributions	116,219	103,805	- 0 -	- 0 -	116,219	103,805	11.96%
Capital Grants and Contributions	78,449	109,216	- 0 -	- 0 -	78,449	109,216	0.00%
General revenues:							
Property and other taxes	743,800	760,625	- 0 -	- 0 -	743,800	760,625	-2.21%
Rent income	184,787	174,130	- 0 -	- 0 -	184,787	174,130	6.12%
Miscellaneous	59,805	79,864	- 0 -	- 0 -	59,805	79,864	-25.12%
Unrestricted investment earnings	9,850	4,715	26,969	11,070	36,819	15,785	133.25%
Total revenues	1,252,158	1,270,353	800,227	722,487	2,052,385	1,992,840	2.99%
Expenses							
General government	497,227	591,661	- 0 -	- 0 -	497,227	591,661	-15.96%
Public safety	90,228	145,765	- 0 -	- 0 -	90,228	145,765	-38.10%
Public works	288,826	164,667	- 0 -	- 0 -	288,826	164,667	75.40%
Parks and recreation	140,188	83,135	- 0 -	- 0 -	140,188	83,135	68.63%
Water and sewer	- 0 -	- 0 -	565,046	525,937	565,046	525,937	7.44%
Total expenses	1,016,469	985,228	565,046	525,937	1,581,515	1,511,165	4.66%
Change in Net Position	235,689	285,125	235,181	196,550	470,870	481,675	-2.24%
Net position, beginning restated	2,091,378	1,806,253	4,216,792	4,020,242	6,308,170	5,826,495	8.27%
Net position, ending	\$ 2,327,067	\$ 2,091,378	\$ 4,451,973	\$ 4,216,792	\$ 6,779,040	\$ 6,308,170	7.46%

Governmental activities: General revenues for the governmental activities were \$998,242 while total expenses, net of charges for services were \$957,221. The income in net position for governmental activities was \$235,689.

TOWN OF CHARLESTOWN

Management Discussion and Analysis June 30, 2019

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, 2019, the Town's governmental funds reported an ending fund balance of \$246,347, of which \$123,371 is a surplus *unassigned fund balance*. In comparison with the prior year this represents an increase of \$216,590. Of the total fund balance, \$11,145 represents *restricted fund balance*, \$100,331 constitutes *assigned fund balance*, which is not available for spending at management's discretion. The remainder of fund balance \$11,500 is *nonspendable* to indicate that it is not available for spending, as it is required to be retained in perpetuity.

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 \$4,451,973. 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.

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, 2019 was \$4,882,840 (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 5 on pages 23-24 of this report.

Capital Assets
(net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land – non-depreciable	\$ 980,483	\$ - 0 -	\$ 980,483
Historic buildings and artifacts – non-depreciable	50,000	- 0 -	50,000
Building and improvements	1,122,209	- 0 -	1,122,209
Machinery and equipment	77,994	- 0 -	77,994
Water and sewer systems	- 0 -	2,652,154	2,652,154
Total capital assets, net of depreciation	\$ 2,230,686	\$ 2,652,154	\$ 4,882,840

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Management Discussion and Analysis
June 30, 2019

Debt administration

At June 30, 2019, the Town had three notes payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds totaling \$445,900, \$73,100 and \$106,000, respectively. There was also a note payable to Maryland Department of Natural Resources for \$45,251; two notes payable for purchases of the new vehicle in the amount of \$779 and \$13,004; 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 \$9,157.

Outstanding Debt

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Total outstanding debt	\$ <u>202,040</u>	\$ <u>491,151</u>	\$ <u>693,191</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, 2019

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 506,144	\$ 1,906,327	\$ 2,412,471
Property taxes receivable	12,332	- 0 -	12,332
Due from other governments	97,093	- 0 -	97,093
Accounts receivable	17,746	- 0 -	17,746
Bond proceeds held in escrow	11,145	- 0 -	11,145
Service charges receivable	- 0 -	131,868	131,868
Due (to) from other funds	(30,000)	30,000	- 0 -
Total Current Assets	614,460	2,068,195	2,682,655
CAPITAL ASSETS			
Land - non-depreciable	980,483	- 0 -	980,483
Historic buildings and artifacts - non-depreciable	50,000	- 0 -	50,000
Building and equipment	3,621,446	5,735,487	9,356,933
Less: accumulated depreciation	(2,421,243)	(3,083,333)	(5,504,576)
Total Capital Assets	2,230,686	2,652,154	4,882,840
OTHER ASSETS			
Advances to (from) other funds	(270,358)	270,358	- 0 -
Total Noncurrent Assets	(270,358)	270,358	- 0 -
TOTAL ASSETS	2,574,788	4,990,707	7,565,495
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	13,564	47,583	61,147
Unearned revenue	3,000	- 0 -	3,000
Current portion - long term obligations	18,961	41,992	60,953
Total Current Liabilities	35,525	89,575	125,100
NONCURRENT LIABILITIES			
Security deposits	2,500	- 0 -	2,500
Long term obligations	209,696	449,159	658,855
TOTAL LIABILITIES	247,721	538,734	786,455
NET POSITION			
Invested in capital assets, net of related debt	2,028,646	2,161,003	4,189,649
Restricted - non-expendable	11,500	- 0 -	11,500
Restricted	11,145	- 0 -	11,145
Unrestricted	275,776	2,290,970	2,566,746
TOTAL NET POSITION	\$ 2,327,067	\$ 4,451,973	\$ 6,779,040

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Activities For the Year Ended June 30, 2019

	Expenses	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	\$ 497,227	\$ 58,883	\$ 45,970	\$ - 0 -	\$ (392,374)	\$ - 0 -	\$ (392,374)
Public safety	90,228	- 0 -	- 0 -	- 0 -	(90,228)	- 0 -	(90,228)
Public works	288,826	- 0 -	70,249	- 0 -	(218,577)	- 0 -	(218,577)
Parks and recreation	140,188	365	- 0 -	78,449	(61,374)	- 0 -	(61,374)
Total Governmental Activities	1,016,469	59,248	116,219	78,449	(762,553)	- 0 -	(762,553)
BUSINESS-TYPE ACTIVITIES							
Water and sewer system	565,046	773,258	- 0 -	- 0 -	- 0 -	208,212	208,212
Total Business-Type Activities	565,046	773,258	- 0 -	- 0 -	- 0 -	208,212	208,212
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,581,515</u>	<u>\$ 832,506</u>	<u>\$ 116,219</u>	<u>\$ 78,449</u>	<u>(762,553)</u>	<u>208,212</u>	<u>(554,341)</u>
GENERAL REVENUES:							
Taxes:							
Property					510,556	- 0 -	510,556
Income and other					233,244	- 0 -	233,244
Rental income					184,787	- 0 -	184,787
Miscellaneous					59,805	- 0 -	59,805
Investment income					9,850	26,969	36,819
TOTAL GENERAL REVENUES					998,242	26,969	1,025,211
CHANGE IN NET POSITION					235,689	235,181	470,870
NET POSITION - BEGINNING							
As previously reported					2,066,206	4,216,792	6,282,998
Adjustments related to prior periods					25,172	- 0 -	25,172
NET POSITION - BEGINNING - AS RESTATED					2,091,378	4,216,792	6,308,170
NET POSITION - ENDING					<u>\$ 2,327,067</u>	<u>\$ 4,451,973</u>	<u>\$ 6,779,040</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Balance Sheet
Governmental Funds
June 30, 2019

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 506,144
Property taxes receivable	12,332
Due from other governments	97,093
Accounts receivable	17,746
Bond proceeds held in escrow	<u>11,145</u>
TOTAL ASSETS	<u>\$ 644,460</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
LIABILITIES:	
Accounts payable and accrued expenses	\$ 13,564
Due to other funds	30,000
Unearned revenue	3,000
Security deposits	2,500
Advances from other funds	<u>270,358</u>
Total Liabilities	\$ 319,422
DEFERRED INFLOWS OF RESOURCES:	
Unavailable property taxes	8,685
Unavailable rental income	8,702
Unavailable income taxes	51,900
Unavailable grant revenues	4,154
Unavailable other income	<u>5,250</u>
Total deferred inflows of resources	<u>78,691</u>
FUND BALANCES:	
Nonspendable	11,500
Restricted	11,145
Assigned	100,331
Unassigned	<u>123,371</u>
Total Fund Balances	<u>246,347</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 644,460</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Reconciliation of Governmental Funds to the Statement of Net Position
June 30, 2019

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 246,347

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	\$ 4,651,929	
Less: accumulated depreciation	<u>(2,421,243)</u>	2,230,686

Receivables that are measurable but not collected within 60 days are not considered available for use in the near term, and therefore, are reported in the governmental funds as deferred inflows.	78,691
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Liabilities associated with compensated absences are not payable in the current period and are not reported in the governmental funds.	(26,617)
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Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.	<u>(202,040)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 2,327,067</u>
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TOWN OF CHARLESTOWN

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 504,872
Income taxes	195,793
Other local taxes	23,551
Licenses and permits	87,518
Intergovernmental	190,514
Rental Income	177,385
Miscellaneous	<u>49,366</u>
Total Revenues	\$ 1,228,999
EXPENDITURES	
Current operating	
General government:	
General government	387,396
Planning and zoning	80,734
Public safety	81,693
Public works:	
Cemetery	10,817
Pier	123,018
Streets	151,627
Parks and recreation	64,929
Capital expenditures	107,984
Debt service - principal	20,184
Debt service - interest	<u>7,013</u>
Total Expenditures	<u>1,035,395</u>
EXCESS OF REVENUES OVER EXPENDITURES	193,604
FUND BALANCES - BEGINNING	
As previously reported	16,426
Adjustments related to prior periods	<u>36,317</u>
FUND BALANCES - BEGINNING AS RESTATED	<u>52,743</u>
FUND BALANCES - ENDING	<u>\$ 246,347</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, 2019

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 193,604

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
capital expenditures of \$107,984 exceeded
depreciation expense of \$107,980 in the current period.

4

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.

20,184

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.

(1,262)

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 net increase (decrease) for the year of deferred inflows of resources:

Property taxes	5,684
Rental income	7,402
Income taxes	13,900
Grant revenues	4,154
Other income	(7,981)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 235,689

TOWN OF CHARLESTOWN

Statement of Net Position - Proprietary Funds
June 30, 2019

	Major Enterprise Fund Utility Fund	
<hr/>		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,906,327	
Service charges receivable	131,868	
Due from other funds	<u>30,000</u>	
Total Current Assets		\$ 2,068,195
CAPITAL ASSETS		
Land, building and equipment	5,735,487	
Less: accumulated depreciation	<u>(3,083,333)</u>	
Total Capital Assets		2,652,154
OTHER ASSETS		
Advances to other funds	<u>270,358</u>	<u>270,358</u>
TOTAL ASSETS		<u>4,990,707</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	47,583	
Current portion - long term obligations	<u>41,992</u>	
Total Current Liabilities		89,575
NONCURRENT LIABILITIES		
Long term obligations	<u>449,159</u>	
Total Noncurrent Liabilities		<u>449,159</u>
TOTAL LIABILITIES		<u>538,734</u>
NET POSITION		
Invested in capital assets, net of related debt	2,161,003	
Unrestricted	<u>2,290,970</u>	
TOTAL NET POSITION		<u>\$ 4,451,973</u>

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, 2019

	Major Enterprise Fund Utility Fund
OPERATING REVENUES	
Service fees	\$ 514,608
Total Operating Revenue	\$ 514,608
OPERATING EXPENSES	
Maintenance	48,813
User fees - county	166,776
Contracted service	47,364
Utilities	15,564
General and administrative	131,250
Depreciation	139,218
Total Operating Expenses	548,985
OPERATING LOSS	(34,377)
NONOPERATING REVENUES (EXPENSES)	
Connection fees	258,650
Interest expense	(16,061)
Investment income	26,969
Total Nonoperating Revenue	269,558
CHANGE IN FUND NET POSITION	235,181
TOTAL NET POSITION - BEGINNING	4,216,792
TOTAL NET POSITION - ENDING	\$ 4,451,973

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Cash Flows - Proprietary Funds For the Year Ended June 30, 2019

	Major Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 513,417
Cash payments to suppliers for goods and services	<u>(408,856)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 104,561
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfer from other funds	<u>184,950</u>
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	184,950
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayments of bonds	(41,130)
Connection fees received	258,650
Interest payments and administrative fees paid on bond	<u>(16,061)</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	201,459
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest	<u>26,969</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>26,969</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	517,939
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,388,388</u>
CASH AND CASH EQUIVALENTS - END	<u><u>\$ 1,906,327</u></u>
Reconciliation of operating loss to net cash flows from operating activities:	
Operating loss	\$ (34,377)
Add depreciation expense	\$ 139,218
Increase in current assets	
Accounts receivable	(1,191)
Increase in current liabilities	
Accounts payable	<u>911</u>
Total adjustments	<u>138,938</u>
Net cash provided by operating activities	<u><u>\$ 104,561</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2019

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 criterion, 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 based on 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. Governmental 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. Accordingly, only current assets and current liabilities are included in the balance sheet. The Town's deferred outflows of resources and deferred inflows of resources are noncurrent. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under 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

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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.

Since the governmental funds financial statements are presented using a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each fund level statement that summarizes the adjustments necessary to convert the fund level statements into the government-wide presentation.

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.

The Town reports the following major governmental fund:

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.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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 (MLGIP).

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 consists 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. All land is capitalized. Proprietary capital assets are also reported in their fund financial statements. Donated assets received on or before June 15, 2015 are stated at their estimated fair value at the date of donation. Donated assets after June 15, 2015 are recorded at acquisition value. 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	10 - 50 years
Machinery and equipment	5 - 15 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, 2019

1. Summary of Significant Accounting Policies (continued)

Unearned Revenue

Unearned revenue represents amounts collected for designated expenditures that have not been completed by year end.

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, 2019, net position classified as restricted consisted of funds whose purpose was restricted by the donor for perpetual maintenance of the cemetery and funds held in escrow for bond project completion.

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, 2019, the Town maintained a balance of \$11,500, which is permanently restricted for the perpetual maintenance of the cemetery.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2019, the Town reported \$11,145 in this category for bond funds held in escrow.

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, 2019, 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, 2019, the Town Commissioners have assigned \$100,331 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.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

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, 2019, the Town did not have any assets to be reported in this category.

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, 2019, 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, 2019, 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	339,834	342,207
Maryland Local Government Investment Pool	<u>2,072,537</u>	<u>2,072,537</u>
	<u>\$ 2,412,471</u>	<u>\$ 2,414,744</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

3. Bond Proceeds Held in Escrow

The Town received a bond loan with the State of Maryland totaling \$132,203. As of June 30, 2019, 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.

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, 2019 consist of scheduled repayments from the General Fund over the next twelve months totaling \$30,000.

Long-term interfund loans totaling \$270,358 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 reported as "advances to (from) other funds".

Interfund receivables and payables consisted of the following:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Utility fund	\$ - 0 -	\$ 300,358
Utility Fund:		
General fund	<u>300,358</u>	<u>- 0 -</u>
Total	<u>\$ 300,358</u>	<u>\$ 300,358</u>

5. Capital Assets

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

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2019</u>
Capital assets, not being depreciated:				
Land	\$ 980,483	\$ - 0 -	\$ - 0 -	\$ 980,483
Historic building & artifacts	50,000	- 0 -	- 0 -	50,000
Construction in progress	89,584	- 0 -	89,584	- 0 -
Capital assets, being depreciated:				
Building and improvements	3,167,528	183,381	- 0 -	3,350,909
Machinery and equipment	<u>256,350</u>	<u>14,187</u>	<u>- 0 -</u>	<u>270,537</u>
Total	<u>4,543,945</u>	<u>\$ 197,568</u>	<u>\$ 89,584</u>	<u>4,651,929</u>
Less: Accumulated Depreciation:				
Buildings and improvements	2,151,192	\$ 77,508	\$ - 0 -	2,228,700
Machinery and equipment	<u>162,071</u>	<u>30,472</u>	<u>- 0 -</u>	<u>192,543</u>
Total	<u>2,313,263</u>	<u>\$ 107,980</u>	<u>\$ - 0 -</u>	<u>2,421,243</u>
Total capital assets	<u>\$ 2,230,682</u>			<u>\$ 2,230,686</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

5. Capital Assets (continued)

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

General Government	\$	27,836
Public Safety		8,535
Parks & Recreation		44,045
Public Works		<u>27,564</u>
Total	\$	<u>107,980</u>

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

	Balance June 30, 2018	Additions	Disposals	Balance June 30, 2019
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	1,862,938	\$ 98,589	\$ - 0 -	1,961,527
Sewer system	<u>1,081,177</u>	<u>40,629</u>	<u>- 0 -</u>	<u>1,121,806</u>
Total	<u>2,944,115</u>	<u>\$ 139,218</u>	<u>\$ - 0 -</u>	<u>3,083,333</u>
Total capital assets	<u>\$ 2,791,372</u>			<u>\$ 2,652,154</u>

Depreciation expense for business-type activities for the year ended June 30, 2019 was \$139,218.

6. Long-Term Obligations

The following is a summary of long-term obligations as of June 30, 2019:

	Governmental Activities	Business-type Activities
Balance at beginning of year	\$ 247,579	\$ 532,281
Increases	1,262	- 0 -
Decreases	<u>(20,184)</u>	<u>(41,130)</u>
Balance at end of year	<u>\$ 228,657</u>	<u>\$ 491,151</u>
Bonds and notes payable	\$ 202,040	\$ 491,151
Compensated absences	<u>26,617</u>	<u>- 0 -</u>
Total long term obligations	<u>\$ 228,657</u>	<u>\$ 491,151</u>

The Town issues general obligation bonds and notes payable to provide funds for capital purchases and construction projects. General obligation bonds have been issued for both the governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. Semi-annual payments of principal and interest are due with annual maturities ranging from 17 to 20 years. Repayment of principal and interest maturities is principally made from general revenues of the governmental activities and services charges from the business-type activities. Defaults would be triggered by events such as bankruptcy or failure to pay principal and interest when due. In the event of default, the trustee could intercept revenues due from the State (such as income taxes) to satisfy the debt.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

6. Long-Term Obligations (continued)

Notes payable have been issued directly to the Town and are also backed by the full faith and credit of the Town. Direct borrowings for automobile purchases are furthermore secured by the underlying vehicle. In the event of default, the associated vehicle could be repossessed by the lender to payoff the outstanding balance.

Funding sources for other non-debt related liabilities, such as compensated absences are liquidated by the fund that incurred the cost.

The Town has the following bonds and notes payable at June 30, 2019:

GOVERNMENTAL ACTIVITIES

General Obligation Bonds:

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 \$102,924. 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, 2019:	\$	73,100
Less: current portion		<u>(5,000)</u>
Non-current portion	\$	<u>68,100</u>

Notes from Direct Borrowings and Placements:

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, 2019:	\$	9,157
Less: current portion		<u>(763)</u>
Non-current portion	\$	<u>8,394</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 and interest 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, 2019:	\$	779
Less: current portion		<u>(779)</u>
Non-current portion	\$	<u>- 0 -</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

6. Long-Term Obligations (continued)

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 \$8,500 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, 2019:	\$	106,000
Less: current portion		<u>(6,000)</u>
Non-current portion	\$	<u>100,000</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 and interest 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, 2019:	\$	13,004
Less: current portion		<u>(6,419)</u>
Non-current portion	\$	<u>6,585</u>

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds:

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

Funds were disbursed in May 2012 to refinance a 2000 Infrastructure Financing bond payable totaling \$695,652. 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, 2019:	\$	445,900
Less: current portion		<u>(38,500)</u>
Non-current portion	\$	<u>407,400</u>

Notes from Direct Borrowings and Placements:

Maryland Department of Natural Resources - Project Financing Loan:

Funds disbursed December 2006 to finance the Charlestown shoreline stabilization project totaling \$87,288. 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, 2019:	\$	45,251
Less: current portion		<u>(3,492)</u>
Non-current portion	\$	<u>41,759</u>

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

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2019

6. Long-Term Obligations (continued)

Governmental Activities

<u>Fiscal Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 18,961	\$ 6,643	\$ 25,604
2021	17,848	6,180	24,028
2022	11,763	5,743	17,506
2023	11,763	5,410	17,173
2024	12,263	5,073	17,336
2025 – 2029	67,315	19,416	86,731
2030 – 2034	62,127	6,733	68,860
Total	<u>\$ 202,040</u>	<u>\$ 55,198</u>	<u>\$ 257,238</u>

Interest expense totaled \$7,013 for the year ended June 30, 2019.

Business-Type Activities

<u>Fiscal years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 41,992	\$ 15,367	\$ 57,359
2021	42,992	14,147	57,139
2022	43,992	13,057	57,049
2023	45,992	11,878	57,870
2024	47,192	10,446	57,638
2025 – 2029	258,515	28,258	286,773
2030 – 2032	10,476	- 0 -	10,476
Total	<u>\$ 491,151</u>	<u>\$ 93,153</u>	<u>\$ 584,304</u>

Interest expense totaled \$16,061 for the year ended June 30, 2019.

7. Restricted Net Position

Cemetery Reserve

The Town maintains a perpetual reserve for future cemetery maintenance. The balance as of June 30, 2019 was \$11,500.

Bond Escrow

The State of Maryland is holding \$11,145 in escrow to be released to the Town upon completion of additional work related to its shoreline erosion project (Note 3).

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

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, 2019, 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, 2020	\$	127,545
2021		78,164
2022		63,953
2023		43,600
2024		22,417
Thereafter		<u>185,070</u>
Total	\$	<u>520,749</u>

10. Deferred Compensation Plan

The Town offers to its employees a deferred compensation plan in accordance with Section 401(k) 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, 2019, the Town matched employee contributions of \$20,521.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2019

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, 2019, 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. Adjustments Related to Prior Periods

During the year ended June 30, 2019, it was determined that amounts related to local income tax revenue had been improperly recognized in the general fund in the prior period. Accordingly, the opening fund balance for the general fund was restated by \$25,172, the amount of local income taxes received in July and August of 2018. In addition, it was determined that amounts related to deferred inflows of resources were improperly recognized in the general fund in prior periods. Accordingly, the opening restricted fund balance for the general fund was restated by an additional \$11,145, the amount of bond proceeds held in escrow.

14. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through DATE TBD, 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, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Property taxes	\$ 494,382	\$ 494,382	\$ 504,872	\$ 10,490
Income taxes	120,000	120,000	195,793	75,793
Other local taxes	20,306	20,306	23,551	3,245
Licenses and permits	42,600	42,600	87,518	44,918
Intergovernmental	103,149	140,933	190,514	49,581
Rental Income	182,748	182,748	177,385	(5,363)
Miscellaneous	7,005	21,192	49,366	28,174
Total Revenues	\$ 970,190	\$ 1,022,161	\$ 1,228,999	\$ 206,838
EXPENDITURES				
Current operating				
General government:				
General government	360,400	360,400	387,396	26,996
Planning and zoning	41,680	41,680	80,734	39,054
Public safety	86,000	86,000	81,693	(4,307)
Public works:				
Cemetery	13,720	13,720	10,817	(2,903)
Pier	95,900	102,900	123,018	20,118
Streets	181,200	181,200	151,627	(29,573)
Parks and recreation	102,050	102,050	64,929	(37,121)
Capital expenditures	40,000	84,971	107,984	23,013
Debt service - principal	41,240	41,240	20,184	(21,056)
Debt service - interest	8,000	8,000	7,013	(987)
Total Expenditures	970,190	1,022,161	1,035,395	13,234
EXCESS OF REVENUES OVER EXPENDITURES	\$ - 0 -	\$ - 0 -	\$ 193,604	\$ 193,604

See accompanying notes to required supplementary information.

TOWN OF CHARLESTOWN

Notes to Required Supplementary Information June 30, 2019

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.

The legal level of budgetary control is at the level of general classification of expenditure. The Town did exceed its budget for the year ended June 30, 2019 due to higher revenue received than anticipated. The Town's expenses exceeded its budget in the following classifications:

- General government
- Planning and zoning
- Public Works - Pier
- Capital expenditures

Communication with Governance Letter

October 31, 2019

Town Commissioners and Management
Town of Charlestown, Maryland

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, of the Town of Charlestown, Maryland for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 23, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Charlestown, Maryland are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2019. We noted no transactions entered into by the Town of Charlestown, Maryland during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town's financial statements were:

Management has estimated the useful lives of fixed assets. We evaluated the estimated useful lives of the various categories of assets and they appear reasonable.

Management's estimate of the allowance for uncollectible accounts is based on an analysis of the collectability of individual accounts. For the year ended June 30, 2019, the Town determined that an allowance for doubtful accounts was not needed.

Town of Charlestown, Maryland
AUC §260 Letter
June 30, 2019

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

As disclosed in Note 2, the Town's cash deposits were fully collateralized as required by State law at June 30, 2019.

As disclosed in Note 5, capital asset activity for the governmental activities included the following: additions to capital assets were \$197,568 and depreciation expense was \$107,980. Capital asset activity for the business-type activities included the following: no capital asset additions and depreciation expense of \$139,218.

As disclosed in Note 6, total long-term obligations for governmental and business-type activities was \$228,657 and \$491,151, respectively. The total debt obligations due within one year for governmental and business-type activities are \$18,961 and \$41,992, respectively. There were no additional borrowings in fiscal year 2019 and \$61,314 of principal payments were made.

As disclosed in Note 10, the Town contributed \$20,521 to the Town's 401(k) employee benefit plan in fiscal year 2019.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement detected as a result of audit procedures was corrected by management:

- To record a prior period adjustment for fiscal year 2018 income taxes - \$25,172 General Fund

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town of Charlestown, Maryland's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town of Charlestown, Maryland's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors



Internal Control Letter



Town Commissioners and Management
Town of Charlestown, Maryland

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities and each major fund, of the Town of Charlestown, Maryland as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Charlestown, Maryland's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Charlestown, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Charlestown, Maryland's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

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

Accuracy of Meter Readings

During an analysis of the Town's fiscal year 2019 consumption, it was noted that the Town has large swings in quarterly consumption that cannot be explained. Per inquiry, the Town's meters were originally installed in 1992 and many have never been replaced. Due to the age of the meters, the Town has an ever increasing number of meters that do not register reads and are failing to provide accurate consumption readings. If a meter cannot be read, the Town manually enters an estimate read of 10,000 gallons, which is the minimum usage amount for a water and sewer billing. Without accurate readings, the Town is at a greater risk that the quarterly billings are misstated.

Town of Charlestown, Maryland
AUC §265 Letter
June 30, 2019

We recommend the Town discuss the next steps to address the failing meter reads of the current system.

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

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
October 31, 2019

