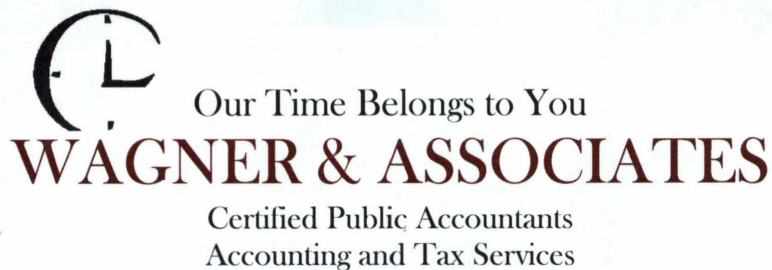


TOWN OF CHARLESTOWN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

TOWN OF CHARLESTOWN

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management Discussion and Analysis	3-8
Statement of Net Position	9
Statement of Activities	10
Balance Sheet – Governmental Funds	11
Reconciliation of Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Notes to Financial Statements	18-28
Required Supplementary Information:	
Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund	29
Notes to Required Supplementary Information	30



INDEPENDENT AUDITOR'S REPORT

To the Town Commissioners
Town of Charlestown, Maryland

We have audited the accompanying 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, 2018, 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, Maryland, as of June 30, 2018, and the respective changes

TEL (410) 376-7136

TOLL FREE (800) 769-1886

FAX (410) 698-6607

35 North Hills Drive, Rising Sun, MD 21911

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 29 and 30 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

October 25, 2018

TOWN OF CHARLESTOWN

Management Discussion and Analysis June 30, 2018

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, 2018. 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 2018 fiscal year by \$6,282,999 (net position). Approximately 67% of this amount is attributable to the Utility Fund. Of the total net position, \$2,003,950 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors (98% of this amount is attributable to the Utility Fund), and \$4,267,549 is invested in capital assets, net of related debt. The remaining net position of \$11,500 has been restricted.

As of June 30, 2018, the Town's governmental funds reported a combined ending positive fund balance of \$16,426. *Nonspendable* and *assigned* fund balances have positive balances of \$11,500 and \$98,145, respectively, while \$93,219 is a deficit from unassigned fund balance. As of June 30, 2018, unassigned fund balance for the General Fund (primary operating fund) was \$93,219 or 9% of total General Fund expenditures.

The Town's total long-term debt obligations, net of issuance and repayments, decreased by \$53,224 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, 2018

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 page 29.

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 page 29.

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 (68%) 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, 2018

For the fiscal year ended June 30, 2018, 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 positive balance of \$46,249.

	Net Position						Total Percentage Change 2018-2017
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2018	2017	2018	2017	2018	2017	
Assets							
Current and other assets	\$ 575,714	\$ 489,650	\$ 1,540,463	\$ 1,083,677	\$ 2,116,177	\$ 1,573,327	34.50%
Capital assets	2,230,682	2,238,193	2,791,372	2,930,590	5,022,054	5,168,783	-2.84%
Other assets	(463,910)	(646,011)	463,910	646,011	- 0 -	- 0 -	0.00%
Total assets	2,342,486	2,081,832	4,795,745	4,660,278	7,138,231	6,742,110	5.88%
Liabilities							
Current Liabilities	46,384	37,039	87,664	103,430	134,048	140,469	-4.57%
Long-term liabilities outstanding	229,895	238,540	491,289	536,606	721,184	775,146	-6.96%
Total liabilities	276,279	275,579	578,953	640,036	855,232	915,615	-6.59%
Net Position							
Invested in capital assets, net of related debt	2,008,458	1,996,127	2,259,091	2,357,816	4,267,549	4,353,943	-1.98%
Restricted	11,500	11,500	- 0 -	- 0 -	11,500	11,500	0.00%
Unrestricted	46,249	(201,374)	1,957,701	1,662,426	2,003,950	1,461,052	37.16%
Total net position	\$ 2,066,207	\$ 1,806,253	\$ 4,216,792	\$ 4,020,242	\$ 6,282,999	\$ 5,826,495	7.83%

TOWN OF CHARLESTOWN

Management Discussion and Analysis

June 30, 2018

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

	Changes in Net Position						Total Percentage Change 2018-2017
	Governmental Activities		Business-type Activities		Totals - Primary Government		
	2018	2017	2018	2017	2018	2017	
Revenues							
Program revenues:							
Charges for services	\$ 37,998	\$ 19,109	\$ 711,417	\$ 581,701	\$ 749,415	\$ 600,810	24.73%
Operating Grants and Contributions	103,805	100,474	- 0 -	- 0 -	103,805	100,474	3.32%
Capital Grants and Contributions	109,216	9,364	- 0 -	- 0 -	109,216	9,364	0.00%
General revenues:							
Property and other taxes	735,454	692,681	- 0 -	- 0 -	735,454	692,681	6.17%
Rent income	174,130	153,516	- 0 -	- 0 -	174,130	153,516	13.43%
Miscellaneous	79,864	33,347	- 0 -	- 0 -	79,864	33,347	139.49%
Unrestricted investment earnings	4,715	1,413	11,070	1,864	15,785	3,277	381.69%
Total revenues	1,245,182	1,009,904	722,487	583,565	1,967,669	1,593,469	23.48%
Expenses							
General government	591,661	531,630	- 0 -	- 0 -	591,661	531,630	11.29%
Public safety	145,765	85,102	- 0 -	- 0 -	145,765	85,102	71.28%
Public works	164,667	135,812	- 0 -	- 0 -	164,667	135,812	21.25%
Parks and recreation	83,135	86,570	- 0 -	- 0 -	83,135	86,570	-3.97%
Water and sewer	- 0 -	- 0 -	525,937	533,611	525,937	533,611	-1.44%
Total expenses	985,228	839,114	525,937	533,611	1,511,165	1,372,725	10.09%
Change in Net Position	259,954	170,790	196,550	49,954	456,504	220,744	106.80%
Net position, beginning	1,806,253	1,635,463	4,020,242	3,970,288	5,826,495	5,605,751	3.94%
Net position, ending	\$ 2,066,207	\$ 1,806,253	\$ 4,216,792	\$ 4,020,242	\$ 6,282,999	\$ 5,826,495	7.83%

Governmental activities: General revenues for the governmental activities were \$994,163 while total expenses, net of charges for services were \$734,209. The income in net position for governmental activities was \$259,954.

TOWN OF CHARLESTOWN

Management Discussion and Analysis
June 30, 2018

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, 2018, the Town's governmental funds reported an ending fund balance of \$16,426, of which \$93,219 is a deficit *unassigned fund balance*. In comparison with the prior year this represents an increase of \$209,844. Of the total fund balance, \$98,145 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 \$4,216,792. 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, 2018

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, 2018 was \$5,022,054 (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	\$ 980,483	\$ - 0 -	\$ 980,483
Historic buildings and artifacts – non-depreciable	50,000	- 0 -	50,000
Construction in progress	89,584	- 0 -	89,584
Building and improvements	1,016,336	- 0 -	1,016,336
Machinery and equipment	94,279	- 0 -	94,279
Water and sewer systems	<u>- 0 -</u>	<u>2,791,372</u>	<u>2,791,372</u>
Total capital assets, net of depreciation	<u>\$ 2,230,682</u>	<u>\$ 2,791,372</u>	<u>\$ 5,022,054</u>

Debt administration

At June 30, 2018, the Town had three notes payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds totaling \$483,400, \$77,600 and \$111,500, respectively. There was also a note payable to Maryland Department of Natural Resources for \$48,881; two notes payable for purchases of the new vehicle in the amount of \$3,964 and \$19,240; 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 \$9,920.

Outstanding Debt

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Total outstanding debt	<u>\$ 222,224</u>	<u>\$ 532,281</u>	<u>\$ 754,505</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, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 464,859	\$ 1,388,388	\$ 1,853,247
Property taxes receivable	3,002	- 0 -	3,002
Due from other governments	108,996	- 0 -	108,996
Accounts receivable	9,110	- 0 -	9,110
Bond proceeds held in escrow	11,145	- 0 -	11,145
Service charges receivable	- 0 -	130,677	130,677
Prepaid expenses	- 0 -	- 0 -	- 0 -
Due (to) from other funds	(21,398)	21,398	- 0 -
Total Current Assets	<u>575,714</u>	<u>1,540,463</u>	<u>2,116,177</u>
CAPITAL ASSETS			
Land - non-depreciable	980,483	- 0 -	980,483
Historic buildings and artifacts - non-depreciable	50,000	- 0 -	50,000
Construction in progress	89,584	- 0 -	89,584
Building and equipment	3,423,878	5,735,487	9,159,365
Less: accumulated depreciation	<u>(2,313,263)</u>	<u>(2,944,115)</u>	<u>(5,257,378)</u>
Total Capital Assets	<u>2,230,682</u>	<u>2,791,372</u>	<u>5,022,054</u>
OTHER ASSETS			
Advances to (from) other funds	<u>(463,910)</u>	<u>463,910</u>	<u>- 0 -</u>
Total Noncurrent Assets	<u>(463,910)</u>	<u>463,910</u>	<u>- 0 -</u>
TOTAL ASSETS	<u>2,342,486</u>	<u>4,795,745</u>	<u>7,138,231</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	23,200	46,672	69,872
Unearned revenue	3,000	- 0 -	3,000
Current portion - long term obligations	<u>20,184</u>	<u>40,992</u>	<u>61,176</u>
Total Current Liabilities	46,384	87,664	134,048
NONCURRENT LIABILITIES			
Security deposits	2,500	- 0 -	2,500
Long term obligations	<u>227,395</u>	<u>491,289</u>	<u>718,684</u>
TOTAL LIABILITIES	<u>276,279</u>	<u>578,953</u>	<u>855,232</u>
NET POSITION			
Invested in capital assets, net of related debt	2,008,458	2,259,091	4,267,549
Restricted	11,500	- 0 -	11,500
Unrestricted	<u>46,249</u>	<u>1,957,701</u>	<u>2,003,950</u>
TOTAL NET POSITION	<u>\$ 2,066,207</u>	<u>\$ 4,216,792</u>	<u>\$ 6,282,999</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Activities
For the Year Ended June 30, 2018

	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
FUNCTIONS/PROGRAMS:							
GOVERNMENTAL ACTIVITIES							
General government	\$ 591,661	\$ 37,188	\$ 44,469	\$ - 0 -	\$ (510,004)	\$ - 0 -	\$ (510,004)
Public safety	145,765	- 0 -	- 0 -	50,000	(95,765)	- 0 -	(95,765)
Public works	164,667	- 0 -	59,336	- 0 -	(105,331)	- 0 -	(105,331)
Parks and recreation	83,135	810	- 0 -	59,216	(23,109)	- 0 -	(23,109)
Total Governmental Activities	<u>985,228</u>	<u>37,998</u>	<u>103,805</u>	<u>109,216</u>	<u>(734,209)</u>	<u>- 0 -</u>	<u>(734,209)</u>
BUSINESS-TYPE ACTIVITIES							
Water and sewer system	525,937	711,417	- 0 -	- 0 -	- 0 -	185,480	185,480
Total Business-Type Activities	<u>525,937</u>	<u>711,417</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>185,480</u>	<u>185,480</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,511,165</u>	<u>\$ 749,415</u>	<u>\$ 103,805</u>	<u>\$ 109,216</u>	<u>(734,209)</u>	<u>185,480</u>	<u>(548,729)</u>
GENERAL REVENUES:							
Taxes:							
Property					504,414	- 0 -	504,414
Income and other					231,040	- 0 -	231,040
Rental income					174,130	- 0 -	174,130
Miscellaneous					79,864	- 0 -	79,864
Investment income					4,715	11,070	15,785
SPECIAL ITEMS:							
Court settlement - rental income					- 0 -	- 0 -	- 0 -
Gain on sale of other assets					- 0 -	- 0 -	- 0 -
Loss on disposal of capital assets					- 0 -	- 0 -	- 0 -
TOTAL GENERAL REVENUES					<u>994,163</u>	<u>11,070</u>	<u>1,005,233</u>
CHANGE IN NET POSITION					<u>259,954</u>	<u>196,550</u>	<u>456,504</u>
NET POSITION - BEGINNING					<u>1,806,253</u>	<u>4,020,242</u>	<u>5,826,495</u>
NET POSITION - ENDING					<u>\$ 2,066,207</u>	<u>\$ 4,216,792</u>	<u>\$ 6,282,999</u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Balance Sheet
Governmental Funds
June 30, 2018

ASSETS

Cash and cash equivalents	\$ 464,859
Property taxes receivable	3,002
Due from other governments	108,996
Accounts receivable	9,110
Bond proceeds held in escrow	<u>11,145</u>

TOTAL ASSETS \$ 597,112

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

LIABILITIES:

Accounts payable and accrued expenses	\$ 23,200
Due to other funds	21,398
Unearned revenue	3,000
Security deposits	2,500
Advances from other funds	<u>463,910</u>

Total Liabilities \$ 514,008

DEFERRED INFLOWS OF RESOURCES:

Unavailable property taxes	3,002
Unavailable loan proceeds	11,145
Unavailable rental income	1,300
Unavailable income taxes	38,000
Unavailable other income	<u>13,231</u>

Total deferred inflows of resources 66,678

FUND BALANCES:

Nonspendable	11,500
Assigned	98,145
Unassigned	<u>(93,219)</u>

Total Fund Balances 16,426

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES \$ 597,112

TOWN OF CHARLESTOWN

Reconciliation of Governmental Funds to the Statement of Net Position
June 30, 2018

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$	16,426
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	\$	4,543,945	
Less: accumulated depreciation		<u>(2,313,263)</u>	
			2,230,682
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.			55,533
Liabilities associated with compensated absences are not payable in the current period and are not reported in the governmental funds.			(25,355)
Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.			(222,224)
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><u>2,066,207</u></u>

TOWN OF CHARLESTOWN

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

REVENUES		
Property taxes	\$ 503,322	
Income taxes	171,549	
Other local taxes	21,491	
Licenses and permits	58,900	
Intergovernmental	213,021	
Rental Income	177,239	
Miscellaneous	<u>50,446</u>	
Total Revenues		\$ 1,195,968
EXPENDITURES		
Current operating		
General government:		
General government	529,703	
Planning and zoning	23,916	
Public safety	137,230	
Public works:		
Cemetery	7,335	
Pier	19,657	
Streets	110,111	
Parks and recreation	41,448	
Capital expenditures	89,584	
Debt service - principal	19,842	
Debt service - interest	<u>7,298</u>	
Total Expenditures		<u>986,124</u>
EXCESS OF REVENUES OVER EXPENDITURES		209,844
FUND BALANCES - BEGINNING		<u>(193,418)</u>
FUND BALANCES - ENDING		<u><u>\$ 16,426</u></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, 2018

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	209,844
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
<p>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 \$97,095 exceeded capital expenditures of \$89,584 in the current period.</p>		(7,511)
<p>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.</p>		19,842
<p>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.</p>		(11,435)
<p>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.</p>		
Property taxes		1,092
Other rental income		(3,109)
Income taxes		38,000
Other income		13,231
		13,231
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	259,954

TOWN OF CHARLESTOWN

Statement of Net Position - Proprietary Funds
June 30, 2018

		Major Enterprise Fund Utility Fund
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,388,388	
Service charges receivable	130,677	
Due from other funds	21,398	
Total Current Assets		\$ 1,540,463
CAPITAL ASSETS		
Land, building and equipment	5,735,487	
Less: accumulated depreciation	(2,944,115)	
Total Capital Assets		2,791,372
OTHER ASSETS		
Advances to other funds	463,910	
		463,910
TOTAL ASSETS		4,795,745
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	46,672	
Current portion - long term obligations	34,008	
Total Current Liabilities		80,680
NONCURRENT LIABILITIES		
Long term obligations	498,273	
Total Noncurrent Liabilities		498,273
TOTAL LIABILITIES		578,953
NET POSITION		
Invested in capital assets, net of related debt	2,263,415	
Unrestricted	1,953,377	
TOTAL NET POSITION		\$ 4,216,792

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, 2018

	<u>Major Enterprise Fund Utility Fund</u>	
OPERATING REVENUES		
Service fees	<u>\$ 501,417</u>	
Total Operating Revenue		\$ 501,417
OPERATING EXPENSES		
Maintenance	39,772	
User fees - county	149,982	
Contracted service	45,258	
Utilities	15,242	
General and administrative	118,412	
Professional fees	700	
Depreciation	<u>139,218</u>	
Total Operating Expenses		<u>508,584</u>
OPERATING LOSS		(7,167)
NONOPERATING REVENUES (EXPENSES)		
Connection fees	210,000	
Interest expense	(17,353)	
Investment income	<u>11,070</u>	
Total Nonoperating Revenue		<u>203,717</u>
		196,550
CHANGE IN FUND NET POSITION		<u>4,020,242</u>
TOTAL NET POSITION - BEGINNING		<u>\$ 4,216,792</u>
TOTAL NET POSITION - ENDING		<u><u>\$ 4,216,792</u></u>

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2018

		Major Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 505,996	
Cash payments to suppliers for goods and services	(385,632)	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 120,364
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from other funds	180,710	
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		180,710
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayments of bonds	(44,817)	
Connection fees received	210,000	
Proceeds from sale of fixed assets		
Interest payments and administrative fees paid on bond	(17,353)	
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		147,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest	11,070	
NET CASH FLOWS FROM INVESTING ACTIVITIES		11,070
NET INCREASE IN CASH AND CASH EQUIVALENTS		459,974
CASH AND CASH EQUIVALENTS - BEGINNING		928,414
CASH AND CASH EQUIVALENTS - END		\$ 1,388,388
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss		\$ (7,167)
Add depreciation expense	\$ 139,218	
Decrease in current assets		
Accounts receivable	4,579	
Increase (decrease) in current liabilities		
Accounts payable	(16,266)	
Total adjustments		127,531
Net cash provided by operating activities		\$ 120,364

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

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, 2018

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.

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, 2018

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 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 30, 2015 are stated at their estimated fair value at the date of donation. Donated assets after July 1, 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.

Unearned Revenue

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

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

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, 2018, 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, 2018, 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, 2018, 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, 2018, 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, 2018, the Town Commissioners have assigned \$98,145 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, 2018, the Town did not have any assets to be reported in this category.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

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. MLGIP 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, 2018, 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, 2018, 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	417,289	440,868
Maryland Local Government Investment Pool	1,435,858	1,435,858
	\$ 1,853,247	\$ 1,876,726

3. Bond Proceeds Held in Escrow

The Town received a bond loan with the State of Maryland totaling \$132,302. As of June 30, 2018, 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, 2018

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, 2018 consist of scheduled repayments from the General Fund over the next twelve months totaling \$21,398.

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 -	\$ 485,308
Utility Fund:		
General fund	485,308	- 0 -
Total	\$ 485,308	\$ 485,308

5. Capital Assets

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

	Balance June 30, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 867,802	\$ - 0 -	\$ - 0 -	\$ 980,483
Historic building & artifacts	50,000	- 0 -	- 0 -	50,000
Construction in progress	112,681	89,584	112,681	89,584
Capital assets, being depreciated:				
Building and improvements	3,167,528	- 0 -	- 0 -	3,167,528
Machinery and equipment	260,497	- 0 -	4,147	256,350
Total	4,458,508	89,584	116,828	4,543,945
Less: Accumulated Depreciation:				
Buildings and improvements	2,082,441	68,751	- 0 -	2,151,192
Machinery and equipment	137,874	28,344	4,147	162,071
Total	2,220,315	97,095	- 0 -	2,313,263
Total capital assets	\$ 2,238,193			\$ 2,230,682

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

5. Capital Assets (continued)

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

General Government	\$ 26,708
Public Safety	8,535
Parks & Recreation	34,288
Public Works	<u>27,564</u>
 Total	 <u>\$ 97,095</u>

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

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2018</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	1,764,349	98,589	- 0 -	1,862,938
Sewer system	<u>1,040,548</u>	<u>40,629</u>	<u>- 0 -</u>	<u>1,081,177</u>
Total	<u>2,804,897</u>	<u>139,218</u>	<u>- 0 -</u>	<u>2,944,115</u>
Total capital assets	<u>\$ 2,930,590</u>			<u>\$ 2,791,372</u>

Depreciation expense for business-type activities for the year ended June 30, 2018 was \$139,218.

6. Long-Term Obligations

The following is a summary of long-term obligations as of June 30, 2018:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Balance at beginning of year	\$ 255,986	\$ 577,098
Increases	11,435	- 0 -
Decreases	<u>(19,842)</u>	<u>(44,817)</u>
Balance at end of year	<u>\$ 247,579</u>	<u>\$ 532,281</u>
Bonds and notes payable	\$ 222,224	\$ 532,281
Compensated absences	<u>25,355</u>	<u>- 0 -</u>
Total long term obligations	<u>\$ 247,579</u>	<u>\$ 532,281</u>

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

6. Long-Term Obligations (continued)

The Town has the following bonds and notes payable at June 30, 2018:

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, 2018:	\$	9,920
Less: current portion		<u>(763)</u>
Non-current portion		<u><u>\$ 9,157</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, 2018:	\$	77,600
Less: current portion		<u>(4,500)</u>
Non-current portion		<u><u>\$ 73,100</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, 2018:	\$	3,964
Less: current portion		<u>(3,185)</u>
Non-current portion		<u><u>\$ 779</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, 2018:	\$	111,500
Less: current portion		<u>(5,500)</u>
Non-current portion		<u><u>\$ 106,000</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, 2018:	\$	19,240
Less: current portion		<u>(6,236)</u>
Non-current portion		<u><u>\$ 13,004</u></u>

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

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, 2018:	\$	483,400
Less: current portion		(37,500)
Non-current portion	\$	445,900

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.

19

Balance outstanding as of June 30, 2018:	\$	48,881
Less: current portion		(3,492)
Non-current portion	\$	45,389

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>
2019	\$ 20,184	\$ 7,061	\$ 27,245
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 – 2028	65,315	21,491	86,806
2029 – 2033	67,890	9,377	77,267
2034	8,500	354	8,854
Total	\$ 222,224	\$ 69,259	\$ 284,483

Interest expense totaled \$7,298 for the year ended June 30, 2018.

Business-Type Activities

<u>Fiscal years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	45,992	11,878	57,370
2024 – 2028	250,860	36,655	287,515
2029 – 2032	65,961	2,049	68,010
Total	\$ 532,281	\$ 109,353	\$ 641,634

Interest expense totaled \$17,353 for the year ended June 30, 2018.

TOWN OF CHARLESTOWN

Notes to Financial Statements
June 30, 2018

7. Restricted Net Position

Cemetery Reserve

The Town maintains a reserve permanently restricted to future cemetery maintenance. The balance as of June 30, 2018 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, 2018, 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, 2019	\$	119,500
2020		119,500
2021		119,500
2022		112,500
2023		105,500
Thereafter		<u>59,549</u>
Total	\$	<u>636,049</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, 2018, 4 employees participated in the plan and the Town matched employee contributions of \$18,822.

TOWN OF CHARLESTOWN

Notes to Financial Statements June 30, 2018

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, 2018, 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 October 25, 2018, 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, 2018

	Original Budget	Final Budget	Actual	Variance Postive (Negative)
REVENUES				
Property taxes	\$ 484,758	\$ 484,758	\$ 503,322	\$ 18,564
Income taxes	110,000	110,000	171,549	61,549
Other local taxes	20,128	20,128	21,491	1,363
Licenses and permits	29,800	29,800	58,900	29,100
Intergovernmental	204,868	204,868	213,021	8,153
Rental Income	175,134	175,134	177,239	2,105
Miscellaneous	2,400	2,400	50,446	48,046
	\$ 1,027,088	\$ 1,027,088	\$ 1,195,968	\$ 168,880
EXPENDITURES				
Current operating				
General government:				
General government	531,688	531,688	529,703	(1,985)
Planning and zoning	24,000	24,000	23,916	(84)
Public safety	86,000	86,000	137,230	51,230
Public works:				
Cemetery	8,300	8,300	7,335	(965)
Pier	12,100	12,100	19,657	7,557
Streets	110,000	110,000	110,111	111
Parks and recreation	51,750	51,750	41,448	(10,302)
Capital expenditures	155,401	155,401	89,584	(65,817)
Debt service - principal	39,849	39,849	19,842	(20,007)
Debt service - interest	8,000	8,000	7,298	(702)
	1,027,088	1,027,088	986,124	(40,964)
EXCESS OF REVENUES OVER EXPENDITURES	\$ - 0 -	\$ - 0 -	\$ 209,844	\$ 209,844

See accompanying notes to required supplementary information.

TOWN OF CHARLESTOWN

Notes to Required Supplementary Information
June 30, 2018

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	\$ 1,027,088	\$ 1,195,968
GAAP basis	\$ 1,027,088	\$ 986,124

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, 2018.