TOWN OF CHARLESTOWN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

TOWN OF CHARLESTOWN

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Weyrich
Cronin &
Sorra
CHARTERED

Independent Auditors' Report

To the Town Commissioners
Town of Charlestown

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Town of Charlestown as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Charlestown as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 27 through 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.

Wiyrich, Cronin + Sorra, Chtd.

October 17, 2013
Lutherville, MD

TOWN OF CHARLESTOWN

Management Discussion and Analysis
June 30, 2013

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, 2013. 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 2013 fiscal year by $5,435,135 (net position). Approximately 68% of this amount is attributable to the Utility Fund. Of the total net position, $932,083 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors (106% of this amount is attributable to the Utility Fund), and $4,491,552 is invested in capital assets, net of related debt. As of June 30, 2013, the Town's governmental funds reported combined ending fund balances of $188,808. Of this total amount, $170,127 or 90% is available to meet the Town's current and future needs and is unassigned fund balance. As of June 30, 2013, unassigned fund balance for the General Fund (primary operating fund) was $515,398 or 88% of total General Fund expenditures. The Town's total long-term debt, net of repayments, increased by $56,972 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business. The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities).* The governmental activities of the Town include general government, public safety, public works, and parks and recreation. The business-type activities of the Town include Water and Sewer operations.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities.* The Town maintains two individual governmental funds, the General and the Special Revenue Funds.

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statements of Revenues, Expenditures and Changes in Fund Balances for both of the governmental funds. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 11-14. The budgetary comparison can be found as other required supplementary information on pages 27-30.

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 of pages 18-26 of this report.

Other information. In addition to the basic financial statements and accompanying summary and notes, this report also presents the budgetary comparison for the general fund as *required supplementary information* on pages 27-30.

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 $5,435,135 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 (83%) reflects its investment in capital assets (e.g., land, improvements, buildings, machinery, equipment, vehicles, and sewer system), 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, 2013

For the fiscal year ended June 30, 2013, the Town reported positive balances in all categories, except the unrestricted net position of Governmental Activities, for the Town as a whole. The unrestricted net position of Governmental Activities reported a negative balance of $53,778.

Net Position

	Governmental Activities		Business-type Activities		Totals - Primary Government		Total Percentage Change
	2013	2012	2013	2012	2013	2012	2013-2012
Assets							
Current and other assets	$ 210,859	$ 388,940	$ 1,017,156	$ 783,601	$ 1,228,015	$ 1,172,541	4.73%
Capital assets	1,989,366	1,719,574	3,459,315	3,568,753	5,448,681	5,288,327	3.03%
Other assets	2,773	- 0 -	18,808	18,943	21,581	18,943	13.93%
Total assets	2,202,998	2,108,514	4,495,279	4,371,297	6,698,277	6,479,811	3.37%
Liabilities							
Long-term liabilities outstanding	218,665	129,193	690,547	729,039	909,212	858,232	5.94%
Other liabilities	31,476	275,146	88,595	81,618	120,071	356,764	-66.34%
Total liabilities	250,141	404,339	779,142	810,657	1,029,283	1,214,996	-15.29%
Net Position							
Invested in capital assets, net of related debt	1,761,276	1,339,374	2,730,276	2,803,270	4,491,552	4,142,644	8.42%
Restricted	11,500	11,500	- 0 -	- 0 -	11,500	11,500	0.00%
Unrestricted	(53,778)	353,301	985,861	757,370	932,083	1,110,671	-16.08%
Total net position	$ 1,718,998	$ 1,704,175	$ 3,716,137	$ 3,560,640	$ 5,435,135	$ 5,264,815	3.24%

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
	2013	2012	2013	2012	2013	2012	2013-2012
Revenues							
Program revenues:							
Charges for services	$ 44,065	$ 40,290	$ 567,561	$ 544,751	$ 611,626	$ 585,041	4.54%
Operating Grants and Contributions	45,045	59,751	- 0 -	- 0 -	45,045	59,751	-24.61%
Capital Grants and Contributions	- 0 -	110,885	- 0 -	- 0 -	- 0 -	110,885	-100.00%
General revenues:							
Property and other taxes	471,492	464,408	- 0 -	- 0 -	471,492	464,408	1.53%
Rent income	65,179	61,925	59,298	47,322	124,477	109,247	13.94%
Miscellaneous	17,268	10,897	- 0 -	- 0 -	17,268	10,897	58.47%
Unrestricted investment earnings	1,417	1,711	602	1,139	2,019	2,850	-29.16%
Total revenues	644,466	749,867	627,461	593,212	1,271,927	1,343,079	-5.30%
Expenses							
General government	378,126	451,042	- 0 -	- 0 -	378,126	451,042	-16.17%
Parks and recreation	56,883	82,280	- 0 -	- 0 -	56,883	82,280	-30.87%
Public safety	80,478	84,622	- 0 -	- 0 -	80,478	84,622	-4.90%
Public works	114,157	123,110	- 0 -	- 0 -	114,157	123,110	-7.27%
Water and sewer	- 0 -	- 0 -	471,964	473,829	471,964	473,829	-0.39%
Total expenses	629,644	741,054	471,964	473,829	1,101,608	1,214,883	-9.32%
Change in net position	14,822	8,813	155,497	119,383	170,319	128,196	32.86%
Net position, beginning	1,704,176	1,695,362	3,560,640	3,441,257	5,264,816	5,136,619	2.50%
Net position, ending	$ 1,718,998	$ 1,704,175	$ 3,716,137	$ 3,560,640	$ 5,435,135	$ 5,264,815	3.24%

Governmental activities: General revenues for the governmental activities were $555,356, while total expenses, net of charges for services were $540,534. The gain in net position for governmental activities was $14,822.

Financial Analysis of the Town's Funds
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the Town's *governmental funds* is to provide information on current inflows, outflows, and balances of available, *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year-end. At June 30, 2013, the Town's governmental funds reported a combined ending fund balance of $188,808, a decrease of $175,993 in comparison with the prior year. Approximately 90% of this total amount ($170,127) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance $18,681 is *nonspendable* to indicate that it is not available for new spending because it has already been committed and dedicated for a restricted purpose, or is in a *nonspendable* form (prepaid expenses). The *nonspendable* fund balance, at 10% of total fund balance, does not significantly affect the availability of fund resources for future use.

The General Fund is the chief operating fund of the Town of Charlestown. At the end of the current fiscal year, unassigned fund balance of the General Fund was $515,398. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 88% of total General Fund expenditures. The fund balance of the Town of Charlestown's General Fund increased by $585 during the current fiscal year. The Special Revenue Fund has a total fund deficit of $333,771, which is entirely restricted for fund purposes.

Proprietary funds. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Total net position of the Utility Fund totaled $3,716,137. Other factors concerning these fund finances have been addressed in the discussion of the Town's business-type activities.

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

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

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, 2013, was $5,448,681 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery, equipment, furniture, fixtures, vehicles, and water and sewer system.

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

Capital Assets
(net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	$ 420,702	$ - 0 -	$ 420,702
Historic Building and Artifacts	220,000	- 0 -	220,000
Building and improvements	1,257,947	- 0 -	1,257,947
Machinery and equipment	90,717	- 0 -	90,717
Water and sewer systems	- 0 -	3,459,315	3,459,315
Total net position, net of depreciation	$ 1,989,366	$ 3,459,315	$ 5,448,681

Debt administration. At June 30, 2013, the Town had two notes payable relating to Maryland Department of Housing and Community Development, Infrastructure Financing Bonds in totaling $662,700 and $98,900 respectively. There was also a note payable to Natural Resources for $66,339. A note payable for the December 2008 purchase of the Historic Cecil Hotel in the amount of $116,219. An interest-free project financing loan payable to the Maryland Department of Natural Resources for the financing of the Stone Warf Project in the amount of $12,971 which represents the amount spent and disbursed to the Town.

Outstanding Debt

	Governmental Activities	Business-Type Activities	Total
Total bonds and notes payable	$ 228,090	$ 729,039	$ 957,129

Requests for Information

This financial report is designed to provide a general overview of the Town of Charlestown's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Wib Pumpaly, Town Administrator. Town of Charlestown, 241 Market Street, P.O. Box 154, Charlestown, MD, 21914, or send an e-mail to townadmin21914@comcast.net.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 17, 2013, the date the financial statements were available to be issued.

TOWN OF CHARLESTOWN

Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 583,155	$ 528,615	$ 1,111,770
Service charges receivable	- 0 -	89,692	89,692
Property taxes receivable	6,099	- 0 -	6,099
Due from other governments	1,304	- 0 -	1,304
Accounts receivable	8,477	- 0 -	8,477
Prepaid expenses	7,181	3,492	10,673
Internal balances	(395,357)	395,357	- 0 -
Total Current Assets	210,859	1,017,156	1,228,015
CAPITAL ASSETS			
Land, building and equipment	3,846,979	5,709,957	9,556,936
Less: accumulated depreciation	(1,857,613)	(2,250,642)	(4,108,255)
Total Capital Assets	1,989,366	3,459,315	5,448,681
OTHER ASSETS			
Loan costs	2,927	19,078	22,005
Less: accumulated amortization	(154)	(270)	(424)
Total Other Assets	2,773	18,808	21,581
TOTAL ASSETS	2,202,998	4,495,279	6,698,277
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	22,051	50,103	72,154
Current portion - bond payable	- 0 -	38,492	38,492
Current portion - note payable	9,425	- 0 -	9,425
Total Current Liabilities	31,476	88,595	120,071
NONCURRENT LIABILITIES			
Bonds payable, net of current portion	- 0 -	690,547	690,547
Note payable, net of current portion	218,665	- 0 -	218,665
TOTAL LIABILITIES	250,141	779,142	1,029,283
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue from lease of property	233,859	- 0 -	233,859
NET POSITION			
Invested in capital assets, net of related debt	1,761,276	2,730,276	4,491,552
Restricted	11,500	- 0 -	11,500
Unrestricted	(53,778)	985,861	932,083
TOTAL NET POSITION	$ 1,718,998	$ 3,716,137	$ 5,435,135

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Activities
For the Year Ended June 30, 2013

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS						
GOVERNMENTAL ACTIVITIES						
General government	$ 378,126	$ 44,065	$ 34,923	$ (299,138)	$ - 0 -	$ (299,138)
Public safety	80,478	- 0 -	- 0 -	(80,478)	- 0 -	(80,478)
Public works	114,157	- 0 -	10,122	(104,035)	- 0 -	(104,035)
Parks and recreation	56,883	- 0 -	- 0 -	(56,883)	- 0 -	(56,883)
Total Governmental Activities	629,644	44,065	45,045	(540,534)	- 0 -	(540,534)
BUSINESS-TYPE ACTIVITIES						
Water and sewer system	471,964	567,561	- 0 -	- 0 -	95,597	95,597
Total Business-Type Activities	471,964	567,561	- 0 -	- 0 -	95,597	95,597
TOTAL PRIMARY GOVERNMENT	$ 1,101,608	$ 611,626	$ 45,045	(540,534)	95,597	(444,937)
GENERAL REVENUES						
Taxes:						
Property				389,062	- 0 -	389,062
Income and other				82,430	- 0 -	82,430
Rental income				65,179	59,298	124,477
Miscellaneous				17,268	- 0 -	17,268
Investment income				1,417	602	2,019
TOTAL GENERAL REVENUES				555,356	59,900	615,256
CHANGE IN NET POSITION				14,822	155,497	170,319
NET POSITION - BEGINNING				1,704,176	3,560,640	5,264,816
NET POSITION - ENDING				$ 1,718,998	$ 3,716,137	$ 5,435,135

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 305,928	$ 277,227	$ 583,155
Interfund receivables	412,434	- 0 -	412,434
Property taxes receivable	6,099	- 0 -	6,099
Due from other governments	1,304	- 0 -	1,304
Prepaid expense	7,181	- 0 -	7,181
Accounts receivable	5,701	2,776	8,477
TOTAL ASSETS	$ 738,647	$ 280,003	$ 1,018,650
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and accrued expenses	$ 20,058	$ 1,993	$ 22,051
Interfund payable	- 0 -	412,434	412,434
Due to (from) other funds	196,010	199,347	395,357
Total Liabilities	216,068	613,774	829,842
FUND BALANCES:			
Nonspendable	7,181	11,500	18,681
Unassigned	515,398	(345,271)	170,127
Total Fund Balances	522,579	(333,771)	188,808
TOTAL LIABILITIES AND FUND BALANCES	$ 738,647	$ 280,003	$ 1,018,650

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Reconciliation of Governmental Funds to the Statement of Net Position
June 30, 2013

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		$ 188,808
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets	$ 3,846,979	
Less: accumulated depreciation	(1,857,613)	
		1,989,366
Liabilities associated with the acquisition of capital assets are not reported in the governmental funds.		(228,090)
Loan costs associated with long-term debt, to be amortized over the life of the loan, are not reported in the governmental funds.		2,773
Deferred revenues are not reported in the governmental funds.		(233,859)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 1,718,998

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Totals
REVENUES			
Property taxes	$ 389,062	$ - 0 -	$ 389,062
Income taxes	81,015	- 0 -	81,015
Other local taxes	1,415	- 0 -	1,415
Licenses and permits	38,907	- 0 -	38,907
Intergovernmental	40,083	10,122	50,205
Miscellaneous	37,043	36,943	73,986
Total Revenues	587,525	47,065	634,590
EXPENDITURES			
Current operating			
General government	363,577	- 0 -	363,577
Public safety	49,882	21,565	71,447
Parks and recreation	23,847	- 0 -	23,847
Capital expenditures	140,585	197,328	337,913
Debt service - principal	5,485	4,027	9,512
Debt service - interest	3,564	3,264	6,828
Special revenue fund	- 0 -	97,459	97,459
Total Expenditures	586,940	323,643	910,583
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	585	(276,578)	(275,993)
OTHER FINANCING SOURCES			
Proceeds from issuance of debt	- 0 -	100,000	100,000
NET CHANGE IN FUND BALANCES	585	(176,578)	(175,993)
FUND BALANCES - BEGINNING	521,994	(157,193)	364,801
FUND BALANCES - ENDING	$ 522,579	$ (333,771)	$ 188,808

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, 2013

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	$	(175,993)
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 outlays of $337,912 exceeded depreciation expense of $68,120 in the current period.		269,792
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of long-term debt consumes current financial resources. This is the amount by which current issuance of $100,000 exceeded repayments of $6,584.		(93,416)
Loan issuance costs utilize current financial resources. This is the amount by which costs costs of $2,927 exceeded amortization of $154 during the current period.		2,773
Revenues previously deferred in the governmental activities, which were earned during the current period.		11,666
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$	14,822

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Net Position - Proprietary Funds
For the Year Ended June 30, 2013

	Utility Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 528,615
Service charges receivable	89,692
Prepaid expenses	3,492
Due from other funds	395,357
Total Current Assets	1,017,156
CAPITAL ASSETS	
Land, building and equipment	5,709,957
Less: accumulated depreciation	(2,250,642)
Total Capital Assets	3,459,315
OTHER ASSETS	
Loan fees, net of accumulated amortization of $270	18,808
TOTAL ASSETS	4,495,279
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	50,103
Current portion, bonds payable	38,492
Total Current Liabilities	88,595
NONCURRENT LIABILITIES	
Bonds payable, net of current portion	690,547
Total Noncurrent Liabilities	690,547
TOTAL LIABILITIES	779,142
NET POSITION	
Invested in capital assets, net of related debt	2,730,276
Unrestricted	985,861
TOTAL NET POSITION	$ 3,716,137

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, 2013

	Utility Fund
OPERATING REVENUES	
Service fees	$ 321,561
Total Operating Revenue	321,561
OPERATING EXPENSES	
Salaries	104,300
Maintenance	21,797
User fees - county	119,892
Contracted service	43,835
Utilities	18,273
General and administrative	2,162
Miscellaneous	5,100
Depreciation	135,746
Total Operating Expenses	451,105
OPERATING LOSS	(129,544)
NONOPERATING REVENUES (EXPENSES)	
Connection fees	246,000
Rental income	59,298
Interest expense	(20,724)
Amortization of loan fees	(135)
Investment income	602
Total Nonoperating Revenue	285,041
CHANGE IN FUND NET POSITION	155,497
TOTAL NET POSITION - BEGINNING	3,560,640
TOTAL NET POSITION - ENDING	$ 3,716,137

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2013

	Utility Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 314,256
Cash payments to suppliers for goods and services	(203,250)
Cash payments to general fund for salaries	(104,300)
NET CASH FLOWS FROM OPERATING ACTIVITIES	6,706
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfer to other funds	(254,000)
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	(254,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayments of bonds	(36,444)
Rental income received	59,298
Connection fees received	246,000
Capital expenditures	(26,308)
Interest payments and administrative fees paid on bond	(20,724)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	221,822
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest	602
NET CASH FLOWS FROM INVESTING ACTIVITIES	602
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,870)
CASH AND CASH EQUIVALENTS - BEGINNING	553,485
CASH AND CASH EQUIVALENTS - END	$ 528,615
Reconciliation of operating loss to net cash flows from operating activities:	
Operating loss	$ (129,544)
Add depreciation expense	135,746
(Increase) decrease in current assets	
Accounts receivable	(7,305)
Prepaid expenses	2,880
Increase in current liabilities	
Accounts payable	4,929
Net cash provided by operating activities	$ 6,706

See accompanying notes to financial statements

The Town of Charlestown, Maryland (the Town) was founded in 1742, under the provisions of the laws of the State of Maryland. The Town operates under the Commissioner form of government. The Town provides the following services as authorized by its charter: General Government, Public Safety, Public Works, Parks and Recreation, and Water and Sewer Services.

The accounting policies of the Town of Charlestown, Maryland, conform to generally accepted accounting principles in the United States of America (GAAP) as applicable to local governments. The Town has elected not to apply to its proprietary activities, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

FINANCIAL REPORTING ENTITY

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of interfund activity from these statements. Governmental activities are those which are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges. The Town's business-type activities consist of its water and sewer operations.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges for services and grants and contributions restricted to the capital or operational requirements of specific programs or functions. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

Separate financial statements are shown for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounting and financial reporting is determined by its measurement focus. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized in the year of levy and grants are recognized when all eligibility requirements are met. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

Governmental fund statements are presented using the flow of economic resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). Measurable means the amount of the transaction can be determined and available means collected within 60 days of the year-end. Expenditures are recorded when the related liability is incurred. However, principal and interest on long-term debt and expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, revenues from other agencies, interest revenue and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

FUND ACCOUNTING

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

FUND ACCOUNTING (Continued)

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the Town. All financial resources, except those required to be accounted for in another fund are accounted for in the General Fund.

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

Proprietary Fund Types

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

BUDGETARY DATA

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

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

Proprietary Fund - The accounts receivable of the Utility Fund consists of water and sewer charges.

These balances are continually reviewed by Town management and are deemed fully collectible. Therefore no allowance for uncollectible accounts is deemed necessary.

INTERFUND RECEIVABLES AND PAYABLES

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

CAPITAL ASSETS AND LONG-TERM LIABILITIES

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

Capital assets, which include property, plant, and equipment, and infrastructure such as roads, storm drains, and pipe systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with a cost of more than $2,500. Infrastructure, excluding roads, acquired prior to implementation of GASB Statement 34 has been reported. Such assets are valued at historical or estimated historical cost if actual historical cost is not available. Donated assets are stated at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized. Capital assets purchased by an enterprise fund since 1978 are directly capitalized in the enterprise fund and depreciation is recorded over the estimated useful life

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

of the asset using the straight-line method of depreciation. Fixed assets acquired prior to that date are recorded at "estimated, historical, depreciated cost" or determined by professional engineers. The estimated useful lives are as follows:

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

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

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

NET POSITION

In the government-wide financial statements, net position is classified in the following categories:

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Position

This category represents the net position of the Town which has been restricted for a specific project or purpose by a third party. As of June 30, 2013, net position classified as restricted consisted of funds whose purpose was restricted by the donor for perpetual maintenance of the cemetery.

Unrestricted Net Position

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

FUND BALANCES

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

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2013, the Town maintained a balance of $11,500, which is permanently restricted for the perpetual maintenance of the cemetery. In addition, there was $7,181 in prepaid expenses recorded as nonspendable.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2013, 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, 2013, the Town did not have any assets to be reported in this category.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2013, the Town did not have any assets to be reported in this category.

FUND BALANCES (CONTINUED)

Unassigned

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

PROPERTY TAXES

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

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

Real and personal property taxes are levied at rates enacted by the Commissioners in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield rate furnished by the Maryland State Department of Assessments and Taxation without public notice and only after public hearings. For fiscal 2013, the Town of Charlestown real property tax rate was $.3139 per $100 of assessed value and the business personal property tax rate was $.80 per $100 of assessed value.

ESTIMATES

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

1. Cash and Cash Equivalents

At year-end, the carrying amount of the Town's deposits was $326,594 and the bank balance was $337,230. Of the bank balance, $250,000 was covered by federal deposit insurance. The additional $87,230 was fully collateralized by the local banking institution. The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. A MLGIP advisory committee of current participants was formed to review, on a quarterly basis, the activities of the Pool and to provide suggestions to enhance the Pool. At June 30, 2013, the Town had $785,076 deposited with the Pool.

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

Cash on Hand	$ 100
Carrying amount of deposits	326,594
Carrying amount of temporary investments	785,076
Total cash and cash equivalents per the Statement of Net Position	$ 1,111,770

The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2013.

Investment Rate Risk

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

1. Cash and Cash Equivalents (continued)

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

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The investments of the Town were not exposed to custodial credit risk at June 30, 2013.

2. Restricted Fund Balance

Cemetery Reserve

The Town maintains a reserve restricted to future cemetery maintenance. The balance as of June 30, 2013 was $11,500.

3. Interfund Receivables and Payables

Interfund receivables and payables consist of the following:

	Receivables	Payables
General Fund		
Utility fund	$ - 0 -	$ 196,010
Special fund	412,434	- 0 -
	412,434	196,010
Special Fund		
Utility fund	- 0 -	412,434
General fund	- 0 -	199,347
	- 0 -	598,575
Utility Fund		
General fund	196,010	- 0 -
Special fund	199,347	- 0 -
	395,357	- 0 -
Total	$ 794,585	$ 794,585

4. Capital Assets

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

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$ 420,702	$ - 0 -	$ - 0 -	$ 420,702
Historic building & artifacts	220,000	- 0 -	- 0 -	220,000
Capital assets, being depreciated:				
Building and improvements	2,749,839	300,316	- 0 -	3,050,155
Machinery and equipment	118,526	37,596	- 0 -	156,122
Total	3,509,067	337,912	- 0 -	3,846,979
Less Accumulated Depreciation:				
Buildings and improvements	1,736,365	55,843	- 0 -	1,792,208
Machinery and equipment	53,128	12,277	- 0 -	65,405
Total	1,789,493	68,120	- 0 -	1,857,613
Total capital assets	$ 1,719,574			$ 1,989,366

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

General Government	$ 10,835
Public Safety	9,031
Parks & Recreation	33,036
Public Works	15,218
Total	$ 68,120

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

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Capital assets, being depreciated:				
Water systems	$ 3,688,451	$ 24,891	$ (3,059)	$ 3,710,283
Sewer systems	1,998,257	1,417	- 0 -	1,999,674
Total	5,686,708	26,308	(3,059)	5,709,957
Less Accumulated Depreciation:				
Buildings and improvements	1,280,502	95,167	(3,059)	1,372,610
Machinery and equipment	837,453	40,579	- 0 -	878,032
Total	2,117,955	135,746	(3,059)	2,250,642
Total capital assets	$ 3,568,753			$ 3,459,315

Depreciation expense for business-type activities for the year ended June 30, 2013 was $135,746.

5. Bonds and Notes Payable

The following is a summary of the bonds and notes payable as of June 30, 2013:

	Governmental Activities	Business-type Activities
Amount payable at beginning of year	$ 134,674	$ 765,483
Advances	102,927	- 0 -
Principal retirements	(9,511)	(36,444)
Amount payable at end of year	$ 228,090	$ 729,039

Notes payable consists of the following at June 30, 2013:

Governmental Activities:

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

	$ 116,219
Less: current portion	(4,862)
Non-current portion	$ 111,357

Maryland Department of Natural Resources – Project Financing Loan:
Funds were disbursed in September 2009 and February 2011 to finance the Charlestown Stone Wharf Park project. $28,320 had been awarded for this project. However, only $14,335 was spent and disbursed to the Town. The loan is interest-free, payable in 20 annual installments of $763 beginning July 1 after completion of project. Final maturity date is July 1, 2030.

	$ 12,971
Less: current portion	(763)
Non-current portion	$ 12,208

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.

	$ 98,900
Less: current portion	(3,800)
Non-current portion	$ 95,100

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.

5. Bonds and Notes Payable (continued)

	$ 662,700
Less: current portion	(35,000)
Non-current portion	$ 627,700

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.

	$ 66,339
Less: current portion	(3,492)
Non-current portion	$ 62,847

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

Governmental Activities:

Fiscal Years ending June 30,	Principal	Interest	Total
2014	$ 9,425	$ 6,484	$ 15,909
2015	116,122	3,832	119,954
2016	5,263	2,951	8,214
2017	5,263	2,882	8,145
2018	5,263	2,804	8,067
2019 – 2023	27,815	12,313	40,128
2024 – 2028	31,315	8,254	39,569
2029 – 2032	27,624	2,636	30,260
Total	$ 228,090	$ 42,156	$ 270,246

Interest expense totaled $6,828 for the year ended June 30, 2013.

Business-Type Activities:

Fiscal years ending June 30,	Principal	Interest	Total
2014	$ 38,492	$ 19,090	$ 57,582
2015	38,992	18,597	57,589
2016	38,992	18,096	57,088
2017	39,792	17,549	57,341
2018	40,492	16,918	57,410
2019 – 2023	215,458	70,649	286,107
2024 – 2028	250,858	36,655	287,513
2029 – 2032	65,963	2,049	68,012
Total	$ 729,039	$ 199,603	$ 928,642

Interest expense totaled $20,724 for the year ended June 30, 2013.

6. Property, Casualty and Liability Insurance Pool

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

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

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

7. Operating Lease and Unearned Revenue

In December 2005, the Town entered into a 30 year operating lease agreement for the lease of the Town's pier. The lease required the lessee to make certain improvements, the cost of which would affect future lease payments. Minimum rental payments for the next five years and thereafter are as follows:

2014	$ 10,094
2015	10,396
2016	10,708
2017	11,030
2018	11,360
Thereafter	789,159
Total	$ 842,747

Improvements made to the pier by the lessee were valued at $350,000 at completion. These improvements are reflected in the Statement of Net Position as unearned revenue. They are being amortized over the life of the lease at a rate of $11,667 per year. Total unearned revenue reflected in the financial statements as of June 30, 2013 was $ 233,859.

8. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 17, 2013, 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, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
TAXES				
Local property taxes				
Property taxes	$ 379,445	$ 379,445	$ 389,062	$ 9,617
Total Local Taxes	379,445	379,445	389,062	9,617
Other taxes				
Income taxes	64,880	64,880	81,015	16,135
Admissions and amusements	870	870	1,415	545
Total Other Taxes	65,750	65,750	82,430	16,680
TOTAL TAXES	445,195	445,195	471,492	26,297
LICENSES AND PERMITS				
Traders	275	275	396	121
Licenses and permits	17,200	17,200	24,318	7,118
Cable television rebate	12,880	12,880	14,193	1,313
Total Licenses and Permits	30,355	30,355	38,907	8,552
INTERGOVERNMENTAL				
County tax differential	36,400	36,400	32,923	(3,477)
County trash rebate	5,160	5,160	5,160	- 0 -
State of Maryland critical areas	2,000	2,000	2,000	- 0 -
Total State	43,560	43,560	40,083	(3,477)
OTHER				
Interest income	903	903	959	56
Miscellaneous	4,085	4,085	6,598	2,513
Rental income	28,640	28,640	29,486	846
Total Other	33,628	33,628	37,043	3,415
PREVIOUS YEAR SURPLUS	- 0 -	- 0 -	- 0 -	- 0 -
TRANSFER (TO) FROM LONG-TERM SAVINGS	- 0 -	113,454	- 0 -	(113,454)
TOTAL REVENUE	$ 552,738	$ 666,192	$ 587,525	$ (78,667)

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT				
Administration				
Salary - regular	$ 221,230	$ 221,230	$ 206,587	$ 14,643
Payroll taxes and benefits	101,535	101,535	87,554	13,981
Salary, payroll tax and benefits reimbursements-other funds	(156,825)	(156,825)	(156,825)	- 0 -
Presidential discretionary fund	4,000	4,000	5,597	(1,597)
Office supplies	4,000	4,000	2,747	1,253
Elections	625	625	584	41
Insurance	26,225	26,225	17,335	8,890
Other general government expenses	30,550	30,550	28,508	2,042
Office equipment	1,200	1,200	915	285
Office equipment repair and maintenance	2,075	14,801	13,940	861
Vehicle reimbursement	4,340	4,340	4,340	- 0 -
Total Administration	238,955	251,681	211,282	40,399
Contract services				
Legal	5,000	5,000	(1,219)	6,219
Audit	16,000	16,078	16,078	- 0 -
Administration	2,741	2,741	2,741	- 0 -
Total Contract Services	23,741	23,819	17,600	6,219
Town buildings				
Repairs	4,000	4,000	4,885	(885)
Electric	6,000	6,000	5,239	761
Fuel	3,500	3,500	4,236	(736)
Telephone	3,130	3,130	3,288	(158)
Maintenance - improvements	3,600	103,600	131,014	(27,414)
Maintenance - contracts	7,000	7,000	5,475	1,525
Alarms	585	585	698	(113)
Debt service	8,290	8,290	8,285	5
Historic property	8,500	8,500	7,464	1,036
Total Town Buildings	44,605	144,605	170,584	(25,979)
Planning and zoning				
Administration	10,000	10,000	11,826	(1,826)
Legal fees	21,500	21,500	10,582	10,918
Total Planning and Zoning	31,500	31,500	22,408	9,092
General services				
Trash collection	92,950	92,950	90,574	2,376
Total General Services	92,950	92,950	90,574	2,376
TOTAL GENERAL GOVERNMENT	$ 431,751	$ 544,555	$ 512,448	$ 32,107

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Fire company	$ 10,800	$ 10,800	$ 10,640	$ 160
Police protection	58,500	58,500	60,807	(2,307)
Police protection reimbursements - other funds	(21,565)	(21,565)	(21,565)	- 0 -
Total Public Safety	47,735	47,735	49,882	(2,147)
PARKS AND RECREATION				
Parks and recreations				
Veterans Park improvements	1,000	1,000	1,670	(670)
Trinity Woods improvements	- 0 -	150	95	55
Fairgreen Park improvements	500	1,000	958	42
Shoreline erosion - Stone Wharf	763	763	763	- 0 -
Other improvements	3,000	3,000	3,396	(396)
Contract maintenance	16,050	16,050	14,259	1,791
Special events	5,000	5,000	3,469	1,531
Total Parks and Recreation	26,313	26,963	24,610	2,353
TRANSFER TO SPECIAL REVENUE - STREETS	46,939	46,939	- 0 -	46,939
TOTAL EXPENDITURES	552,738	666,192	586,940	32,313
SUMMARY				
TOTAL REVENUES	552,738	666,192	587,525	(78,667)
TOTAL EXPENDITURES	552,738	666,192	586,940	32,313
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ - 0 -	$ - 0 -	$ 585	$ (585)

See accompanying notes to financial statements

TOWN OF CHARLESTOWN

Notes to Required Supplementary Information
June 30, 2013

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

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.

	Revenues	Expenditures
Budgetary basis	$ 666,192	$ 666,192
Transfer to Special Revenue - Streets	- 0 -	(46,939)
Transfer from long-term savings	(113,454)	- 0 -
GAAP basis	$ 552,738	$ 619,253

The legal level of budgetary control is at the level of general classification of expenditure. The Town exceeded its budget at June 30, 2013 as follows:

Town buildings	$ 25,979
Public safety	$ 2,147