

**TOWN OF HAMPSTEAD, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2009**

TOWN OF HAMPSTEAD

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Independent Auditor's Report

Honorable Mayor
Members of the Town Council
Town Manager
Town of Hampstead, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hampstead, Maryland, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hampstead's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the Town of Hampstead, Maryland, as of June 30, 2009, 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.

The management discussion and analysis and the budgetary comparison information on pages 2 through 10 and 35, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 1, 2009

Lindsey + Associates, LLC

TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Our discussion and analysis of the financial performance of the Town of Hampstead provides an overview of the Town's financial activities for the year ended June 30, 2009. Please read it in conjunction with the transmittal letter and the Town's financial statements.

Introduction

The Town of Hampstead's overall financial situation is strong, particularly when compared to many local Maryland governments. The Town has a substantial unrestricted reserve, a well-established "core services" philosophy, a modest amount of debt and an excellent track record of fiscal responsibility. The Town's property tax rate is one of the lowest in the state. The size of the municipal staff is significantly smaller than other municipalities of comparable population, in part due to the Town's extensive use of private contractors.

The most significant challenge in 2009 was the sharp downturn in the national economy. The recession forced the Town to adjust revenue estimates. While the State of Maryland received \$3.8 billion in federal stimulus money, none of this funding trickled down to the Town. In fact, despite the unprecedented federal windfall, the State chose to cut funding to local aid programs like Highway User Revenues and Program Open Space. By failing to address structural problems in its budget, the State deferred painful financial decisions to future fiscal years. This creates a high risk of additional reductions in funding to local governments like Hampstead.

In broad terms, the Town receives about 37 percent of general government revenues from property taxes and about 25 percent from income taxes. The County contributes about 12 percent through the Town-County Agreement (overlapping services). Highway Users revenues represent about 8.5 percent of revenue. The only major stream of revenue the Town really controls is property taxes. Over sixty percent of the Town's general government (non-water) revenue is derivative and subject to reductions by the State and/or County. Over the next few years, the State will be forced to increase taxes, reduce spending and/or decrease funding to local governments. A further concern is that any decision to displace existing costs (like teacher pensions) to the County may greatly increase pressure on the County to reduce support to municipalities.

The economic downturn also creates direct financial challenges. Residential property values have dropped approximately 20 to 25 percent in Carroll County. All properties in Hampstead are assessed once every three years. The last assessment occurred in 2008 when housing values were near peak. The next assessment will occur in 2011.

The increase in the assessed values of homes generally lags behind the market, particularly for owner-occupied dwellings eligible for the Homestead Tax Credit. While this may offset a potential reduction in aggregate assessable tax base, it is difficult to accurately predict how much. The "best case" scenario for assessable tax base in 2011 may be level, with a possibility the overall base may decrease.

**TOWN OF HAMPSTEAD, MARYLAND
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On a positive note, expenses for the Town are relatively stable. Municipal buildings such as Town Hall, the Police Station and the Public Works shops are adequate to support existing staffing and service levels. The Town enjoys an experienced, well-trained and stable workforce. All senior managers and department heads have tenures of 10 years or more. While the current financial environment is very challenging, the Town is well positioned to weather the economic storm.

Financial Highlights

Water:

- Water rates increased ten percent in 2009. Continued rate increases are anticipated to fund needed infrastructure projects.
- The Town has two wells (20 & 21) out of production due to elevated nitrate levels. In the research related to an engineering solution, the Town determined that the wells and area of the pumping station and water mains were not deeded to the Town in fee simple or be easement. The Town is attempting to negotiate the conveyance of the wells from the potential purchase of the property. Any expenses related to the conveyance should be de minimus.
- The Maryland Department of the Environment (MDE) has approved a renewal of the water appropriations permits in the amount of 580,000 gallons per day (annual average). While the Town believes it has greater capacity than represented by the permit issuance, the Town Council chose to defer any appeal of the permits until after critical infrastructure projects are completed. The Town does not expect to incur additional expenses related to groundwater appropriations in the immediate future.
- The Town failed to secure new water sources in fiscal year 2009. Plans to increase water capacity include acquisition of an existing private irrigation well at the Oakmont Green Golf Course and construction of a Super Pump House in fiscal year 2010. The Town expects additional legal expenses as a result of the eminent domain action related to the golf course well.
- The Town expects to issue debt in the amount of \$1,800,000 in fiscal year 2010 for construction of the Super Pump House (SPH) in North Carroll Farms. The SPH will allow the use of Wells 20 and 21, if acquired.
- Water improvements were budgeted in the capital improvement fund and paid with reserves.

General Government:

- No new debt was issued for the fiscal year 2009.
- The largest capital expense for 2009 was paving. Paving expenses are primarily funded with State funds through Highway User Revenues (HUR).
- Municipal property tax rates and business personal property tax rates remained unchanged in fiscal year 2009.
- The State of Maryland cut Highway Users Revenues paid to local governments in 2009. Additional reductions may be possible given the State's budget situation.

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

- The Hampstead Bypass was completed in August 2009. The Maryland State Highway Administration does not have the funding to complete the Main Street streetscape project. The estimated cost of the streetscape project is \$25 million. The Town has not dedicated funding in the current capital budget for the streetscape project though it is expected that the State Highway Administration will seek some measure of financial contribution from the Town of Hampstead in support of the project.
- Benefit costs continued to rise in 2009. The Town plans to evaluate Health Savings Accounts (HSAs) in FY10 as a cost containment measure.
- Unexpected increases in expenses occurred due to increases in premium for Workman's Compensation Insurance. The Town currently secures insurance through the Injured Worker's Insurance Fund (IWIF). Due to a history of rate increases, disagreements with assessments and dissatisfaction with responsiveness, the Town intends to solicit bids from other insurance carriers in 2010.
- An additional unexpected expense in FY 10 is an increase in solid waste tippage costs due a contract cancellation.
- Employee pay increases in fiscal year 2009 varied between 2% and 10%. The Town conducted an independent compensation study to determine market value of current staff salaries. It was determined that only three full time employees were being paid less than 10% of their marketable salary. These three employees were brought to within 10 percent of market value in fiscal year 2010. All other wages were frozen.
- There were no additions to the staff for fiscal year 2009. An additional police officer has been approved for fiscal year 2010 if stimulus funding is available to fund the position.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's most significant funds and individual parts.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Town's finances is, "Is the Town as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

These two statements report changes in the Town's net assets. You can think of the Town's *net* assets (the difference between assets and liabilities) as one way to measure the Town's financial health or position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's roads to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town's basic services are reported here, including the police, general administration, public works, and parks. Taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- Business-type activities – The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water system is reported here.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the Town as a whole. The Town's two kinds of funds, governmental and proprietary, use different accounting approaches.

- Government funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash-flows.

The Town as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Rental Housing Licenses, Public Works Agreement Fees, Zoning Appeals Fees, Penalties
Public Safety	Federal Grants, State Grants, Fines, Impact Fees, Report Fees
Public Works	Highway User Revenues, County Overlapping Grants, State Sidewalk Grants, Grading Permit Fees
Recreation & Culture	State Grants, Impact Fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.

TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

Governmental-Wide Financial Information

The following is selected information as of June 30, 2009 and for the previous year ended provided for comparison purposes.

	2009			2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 3,126,537	\$ (550,884)	\$ 2,575,653	\$ 2,921,879	\$ (52,893)	\$ 2,868,986
Capital assets	7,696,139	5,041,106	12,737,245	8,126,902	4,880,258	13,007,160
Total assets	10,873,696	4,708,123	15,581,819	11,093,429	5,035,086	16,128,515
Current liabilities	143,131	126,200	269,331	120,799	247,514	368,313
Long-term liabilities	987,082	491,494	1,478,576	1,060,992	526,306	1,587,298
Total liabilities	1,130,213	617,694	1,747,907	1,181,791	773,820	1,955,611
Net assets						
Invested in capital assets, net of related debt	6,771,266	4,544,795	11,316,061	7,123,335	4,349,081	11,472,416
Restricted	-	-	-	-	-	-
Unrestricted	2,972,217	(454,366)	2,517,851	2,788,303	(87,815)	2,700,488
Total net assets	9,743,483	4,090,429	13,833,912	9,911,638	4,261,266	14,172,904
Total liabilities and net assets	10,873,696	4,708,123	15,581,819	11,093,429	5,035,086	16,128,515
Program revenues						
Charges for Services	32,150	629,600	661,750	36,858	604,299	641,157
Grants and contributions	723,799	-	723,799	796,807	-	796,807
General Revenues						
Income Taxes	645,159	-	645,159	697,900	-	697,900
Property Taxes	1,044,414	-	1,044,414	938,288	-	938,288
Total general revenues	2,006,372	125	2,006,497	1,952,380	25	1,952,405
Total revenues and transfers	2,762,321	629,725	3,392,046	2,786,045	604,324	3,390,369
Expenses						
General government	453,779	-	453,779	495,067	-	495,067
Public Safety	899,815	-	899,815	912,320	-	912,320
Public works	1,379,063	-	1,379,063	1,411,738	-	1,411,738
Recreation and culture	159,051	-	159,051	152,217	-	152,217
Transfers	-	-	-	-	-	-
Total expenses and transfers	2,930,477	800,562	3,731,039	3,011,624	787,985	3,799,609
Change in net assets	(168,156)	(170,837)	(338,993)	(225,579)	(183,661)	(409,240)
Net assets, beginning of year	9,911,639	4,261,266	14,172,905	10,137,218	4,444,927	14,582,145
Net assets, end of year	9,743,483	4,090,429	13,833,912	9,911,639	4,261,266	14,172,905

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Business-type Activities

Business-type activities consist of the water department. The water department shows net revenue partially as a result of impact fees being charged for future capital expense.

The Town's Funds

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2009 and percentage of increases and decreases in relation to the prior year.

	FY2009 Amount	Percent of Total	Increase (Decrease) From FY08	FY2008 Amount
Revenues				
Taxes	\$ 1,729,234	62%	\$ 51,545	\$ 1,677,689
Intergovernmental	723,799	26%	(73,008)	796,807
Charges for services	32,150	1%	(4,708)	36,858
Fines, licenses and permits	42,371	2%	(475)	42,846
Interest income	129,428	5%	(2,367)	131,795
Miscellaneous	105,339	4%	5,289	100,050
TOTAL REVENUE	<u>\$ 2,762,321</u>	<u>100%</u>	<u>\$ (23,724)</u>	<u>\$ 2,786,045</u>
Expenditures				
General government	\$ 442,280	17%	\$ (24,532)	\$ 466,812
Public safety	841,627	32%	(9,229)	850,856
Public works	705,189	27%	6,921	698,268
Recreation and culture	95,818	4%	8,483	87,335
Capital outlays	376,068	15%	(92,990)	469,058
Debt Service	117,463	5%	(1,458)	118,921
TOTAL EXPENDITURES	<u>\$ 2,578,445</u>	<u>100%</u>	<u>\$ (112,805)</u>	<u>\$ 2,691,250</u>

The increase in taxes is attributed to the growth in the tax base. The decrease in intergovernmental funds is the result decreased funding from the State of Maryland. The decrease in charges in services is due to a decrease in building permits and rental housing licenses.

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

General Fund Budgetary Highlights

There were no budget revisions in fiscal year 2009. Refer to page 35 of this report for a detailed analysis of the original budget, final budget, and actual revenues and expenditures for the governmental funds.

Capital Asset and Debt Administration

Capital Assets

Major capital additions during 2009 include one Police cruiser, one utility truck, paving, stormwater management, and water distribution system improvements.

The following table lists the Town's additions during the year.

Capital Expenditures Per Fund

<u>General Fund</u>		<u>Business-Type Activities</u>	
		Truck	11,768
		Meter Reading Equipment	17,100
Generator	10,650	Meters	13,767
Steel Security Door	2,051	Scada Equipment	6,134
Police Cruiser	19,185	Distribution System Improvements	97,761
Police Copier	4,859	Approp Pemitis	19,287
Ford F550	11,768	Add Well & Connections	5,745
Roads	296,989	Water Quality Improvements	58,710
Recycling Facility	12,274	Super Pump House	51,880
Panther Drive Stormwater	<u>18,292</u>	Oakmont Well Acquisition	<u>61,319</u>
Subtotal	376,068		343,471
Disposal 2001 Impala	<u>(21,995)</u>		<u>-</u>
Change in Assets	<u><u>354,073</u></u>		<u><u>343,471</u></u>

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Debt

At year end, the Town had \$1,421,184 in outstanding notes as compared to \$1,534,744 last year. This amount consists of notes on the North Water Tower, the Police Station and Paving Improvements. The only other obligation of the Town is compensated absences.

Economic Factors and Next Year's Budgets and Rates

Water expenses are expected to increase as a result of water resource development. General revenues are expected to be unstable as a result of State funding and budget cuts.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Manager at 1034 S. Carroll Street, Hampstead, Maryland 21074.

TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 37,754	\$ -	\$ 37,754
Cash and cash equivalents - restricted	61,098	-	61,098
Investments	2,251,640	-	2,251,640
Amounts due from other governments	41,552	-	41,552
Other accounts receivable, net of allowances	-	142,941	142,941
Prepaid expenses	32,534	8,134	40,668
Due from other funds	701,959	(701,959)	-
Total Current Assets	3,126,537	(550,884)	2,575,653
Noncurrent Assets			
Due from other funds	(217,901)	217,901	-
Cash and cash equivalents - restricted	36,527	-	36,527
Note receivable	232,394	-	232,394
Net capital assets	7,696,139	5,041,106	12,737,245
Total Noncurrent Assets	7,747,159	5,259,007	13,006,166
TOTAL ASSETS	\$ 10,873,696	\$ 4,708,123	\$ 15,581,819
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 54,578	\$ 90,427	\$ 145,005
Amounts held in escrow and deposits	3,943	-	3,943
Unearned revenue	2,738	-	2,738
Current portion of long-term debt	81,872	35,773	117,645
Total Current Liabilities	143,131	126,200	269,331
Noncurrent Liabilities			
Compensated absences	107,554	30,956	138,510
Retention program	36,527	-	36,527
Loans payable - long-term	843,001	460,538	1,303,539
Total Noncurrent Liabilities	987,082	491,494	1,478,576
TOTAL LIABILITIES	1,130,213	617,694	1,747,907
NET ASSETS			
Invested in capital assets, net of related debt	6,771,266	4,544,795	11,316,061
Restricted			
Capital projects	-	-	-
Debt service	-	-	-
Other purposes	-	-	-
Unrestricted	2,972,217	(454,366)	2,517,851
TOTAL NET ASSETS	9,743,483	4,090,429	13,833,912
TOTAL LIABILITIES AND NET ASSETS	\$ 10,873,696	\$ 4,708,123	\$ 15,581,819

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Direct Expenses	Indirect Expense Allocation	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
				Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
						Governmental Activities	Business-type Activities	
Primary Government								
Governmental Activities:								
General government	\$ 453,779	\$ (146,596)	\$ 9,525	\$ -	\$ -	\$ (297,658)	\$ -	\$ (297,658)
Public safety	899,815	130,041	3,788	92,620	-	(933,448)	-	(933,448)
Public works	1,379,063	47,732	4,356	-	631,179	(791,260)	-	(791,260)
Recreation and culture	159,051	7,592	14,481	-	-	(152,162)	-	(152,162)
Interest expense	38,769	(38,769)	-	-	-	-	-	-
Total Governmental Activities	<u>2,930,477</u>	<u>-</u>	<u>32,150</u>	<u>92,620</u>	<u>631,179</u>	<u>(2,174,528)</u>	<u>-</u>	<u>(2,174,528)</u>
Business-type Activities								
Water	800,562	-	629,600	-	-	-	(170,962)	(170,962)
Total Business-Type Activities	<u>800,562</u>	<u>-</u>	<u>629,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(170,962)</u>	<u>(170,962)</u>
Total Primary Government	<u>\$ 3,731,039</u>	<u>\$ -</u>	<u>\$ 661,750</u>	<u>\$ 92,620</u>	<u>\$ 631,179</u>	<u>\$ (2,174,528)</u>	<u>\$ (170,962)</u>	<u>\$ (2,345,490)</u>
				General revenues:				
				Taxes				
				Income taxes		645,159	-	645,159
				Property taxes		1,044,414	-	1,044,414
				Other taxes		39,661	-	39,661
				Licenses and permits		42,371	-	42,371
				Grants and contributions		-	-	-
				Interest and investment earnings		129,428	-	129,428
				Miscellaneous		105,339	125	105,464
				Total General Revenues		<u>2,006,372</u>	<u>125</u>	<u>2,006,497</u>
				Transfers in (out)		-	-	-
				Change in Net Assets		(168,156)	(170,837)	(338,993)
				Net Assets, beginning of year		<u>9,911,639</u>	<u>4,261,266</u>	<u>14,172,905</u>
				Net Assets, end of year		<u>\$ 9,743,483</u>	<u>\$ 4,090,429</u>	<u>\$ 13,833,912</u>

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2009**

	General Fund	Total Governmental Funds		
ASSETS				
Cash and cash equivalents - unrestricted	\$ 37,754	\$ 37,754	<i>Total Governmental Fund Balances</i>	\$ 3,065,278
Cash and cash equivalents - restricted	61,098	61,098	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,696,139
Investments	2,251,640	2,251,640	Other non-current assets in governmental activities are not financial resources and therefore are not reported in the funds.	51,020
Amounts due from other governments	41,552	41,552	Long-term liabilities, including bonds payable, due to other funds and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,068,954)</u>
Due from other funds	701,959	701,959	<i>Net Assets of Governmental Activities</i>	<u>\$ 9,743,483</u>
Prepaid expenses	32,534	32,534		
Total Assets	\$ 3,126,537	\$ 3,126,537		
LIABILITIES				
Accounts payable and accrued expenses	\$ 54,578	\$ 54,578		
Amounts held in escrow and deposit	3,943	3,943		
Deferred revenue	2,738	2,738		
Total Liabilities	61,259	61,259		
FUND BALANCES				
Reserved for:				
Capital projects	-	-		
Debt service	-	-		
Other purposes	-	-		
Unreserved	3,065,278	3,065,278		
TOTAL FUND BALANCES	3,065,278	3,065,278		
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,126,537	\$ 3,126,537		

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 1,729,234	\$ 1,729,234
Intergovernmental	723,799	723,799
Charges for services	32,150	32,150
Fines, licenses, permits	42,371	42,371
Interest Income	129,428	129,428
Miscellaneous	105,339	105,339
Total Revenues	2,762,321	2,762,321
EXPENDITURES		
Current Operations		
General government	442,280	442,280
Public safety	841,627	841,627
Public works	705,189	705,189
Recreation and culture	95,818	95,818
Capital outlays	376,068	376,068
Debt Service		
Principal	78,694	78,694
Interest	38,769	38,769
Total Expenditures	2,578,445	2,578,445
Excess of revenues over (under)		
 expenditures and other financing uses	183,876	183,876
Other financing sources (uses)		
Transfers in (out)	-	-
Proceeds from long-term debt	-	-
Total other financing sources (uses)	-	-
Excess of revenue and other financing		
 sources over (under) expenditures		
 and other financing uses	183,876	183,876
Fund balance, beginning of year	2,881,402	2,881,402
Fund balance, end of year	\$ 3,065,278	\$ 3,065,278

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, 2009

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 183,876
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 as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(430,726)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	78,694
<i>Change in Net Assets of Governmental Activities</i>	\$ (168,156)

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2009

	Business-Type Activities	
	Water	Total
ASSETS		
Current Assets		
Accounts receivable, net of allowances	\$ 142,941	\$ 142,941
Due from other funds	-	-
Prepaid expenses	8,134	8,134
Total Current Assets	<u>151,075</u>	<u>151,075</u>
Noncurrent Assets		
Due from other funds	217,901	217,901
Net capital assets	5,041,106	5,041,106
Total Noncurrent Assets	<u>5,259,007</u>	<u>5,259,007</u>
TOTAL ASSETS	<u>\$ 5,410,082</u>	<u>\$ 5,410,082</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 88,493	\$ 88,493
Accrued expenses	1,934	1,934
Current portion of long-term debt	35,773	35,773
Due to other funds	701,959	701,959
Total Current Liabilities	<u>828,159</u>	<u>828,159</u>
Noncurrent Liabilities		
Due to other funds	-	-
Compensated absences	30,956	30,956
Long-term debt, net of current liabilities	460,538	460,538
Total Noncurrent Liabilities	<u>491,494</u>	<u>491,494</u>
TOTAL LIABILITIES	<u>1,319,653</u>	<u>1,319,653</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,544,795	4,544,795
Restricted	-	-
Unrestricted	(454,366)	(454,366)
TOTAL NET ASSETS	<u>4,090,429</u>	<u>4,090,429</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,410,082</u>	<u>\$ 5,410,082</u>

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities	
	Water Fund	Total
Operating Revenues		
Charges for services	\$ 629,600	\$ 629,600
Miscellaneous	125	125
Total Operating Revenues	<u>629,725</u>	<u>629,725</u>
Operating Expenses		
Personnel services	344,589	344,589
Operations and maintenance	257,197	257,197
Depreciation	182,623	182,623
Total Operating Expenses	<u>784,409</u>	<u>784,409</u>
Operating Income (Loss)	<u>(154,684)</u>	<u>(154,684)</u>
Non-operating Revenues (Expenses)		
Interest and investment earnings	-	-
Interest expense	(16,153)	(16,153)
Net Non-operating Revenues (Expenses)	<u>(16,153)</u>	<u>(16,153)</u>
Income Before Contributions and Transfers	(170,837)	(170,837)
Capital contributions	-	-
Transfers (to) from other funds	<u>-</u>	<u>-</u>
	-	-
Changes in Net Assets	(170,837)	(170,837)
Total net assets at beginning of year	<u>4,261,266</u>	<u>4,261,266</u>
Total net assets at end of year	<u>\$ 4,090,429</u>	<u>\$ 4,090,429</u>

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities	
	Water	Total
Cash flows from operating activities		
Cash received from customers	\$ 626,451	\$ 626,451
Cash paid to suppliers	(380,170)	(380,170)
Cash paid to employees	(351,010)	(351,010)
Other receipts	125	125
Net cash provided (used) by operating activities	(104,604)	(104,604)
Cash flows from capital and related financing activities		
Purchases of capital assets	(343,472)	(343,472)
Principal paid on debt	(34,866)	(34,866)
Interest paid on capital debt	(16,153)	(16,153)
Net cash (used) for capital and related financing activities	(394,491)	(394,491)
Cash flows from non-capital financing activities		
Transfers (to) from other funds	499,095	499,095
Net cash (used) for non-capital financing activities	499,095	499,095
Cash flows from investing activities		
Interest and dividends	-	-
Net cash provided by investing activities	-	-
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating Income (Loss)	\$ (154,684)	\$ (154,684)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	182,623	182,623
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(3,149)	(3,149)
Decrease (increase) in prepaid expense	(8,134)	(8,134)
Increase (decrease) in accounts payable	(114,839)	(114,839)
Increase (decrease) in accrued expenses	(7,381)	(7,381)
Increase (decrease) in compensated absences	960	960
Cash provided (used) by operating activities	\$ (104,604)	\$ (104,604)

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Hampstead, Maryland was incorporated in 1888, pursuant to authority of Article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town of Hampstead conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In evaluating how to define the Town of Hampstead, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town's funds are grouped into two broad fund categories.

Governmental funds include the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The Proprietary Fund includes the Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues, for each segment of the business-type activities of the Town, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. 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. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Funds

Town activities pertaining to general government, public safety, public works, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Proprietary Funds

The Town's water utility activities are reported in the proprietary fund. The proprietary fund is accounted for using the accrual basis of accounting. This fund accounts for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled water fund utility receivables are recorded at each year-end. Operating revenues are comprised primarily of charges for services, and non-operating revenues are comprised primarily of interest and investment earnings.

The Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Enterprise Fund consists of the Water Fund.

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding investments in the State of Maryland Local Government Investment Pool.

Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments," investments held at June 30, 2009 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2009 consist of taxes, accounts (billings for user charged services, including utility services), special assessments, and accrued interest on investments. Taxes, accounts, special assessments, utility charges and accrued interest are deemed collectible in full, and the allowance for doubtful accounts at June 30, 2009 is \$0.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds, and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Town as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; and equipment, 2 to 20 years.

Restricted Reserves

The Town uses restricted resources first when an expense is incurred, for purposes for which both restricted and unrestricted net assets are available.

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period, and is capitalized as part of the cost of the asset.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensated Absences

The Town accrues unused vacation pay in the period the fund liability is incurred. Full-time employees are granted vacation leave based on the number of continuous service years. A maximum of forty-five (45) days of annual leave may be carried over to subsequent years. Upon termination, the employees will be paid the number of days accrued, not to exceed thirty (30) days, in addition to any leave earned during the calendar year. Vested annual leave is expensed in the appropriate fund. The liability of these compensated absences is recorded as long-term debt in the government-wide statements. The current portion is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as incurred.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Equity Classifications

Equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first and then unrestricted resources as needed.

**TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for all Town funds. The Town Council may subsequently amend the budget, and the budget was not amended during fiscal year 2009. For day-to-day management control, expenditures may not exceed budget at the expenditure-type (i.e. personnel services, other operations and maintenance, etc.). The Town prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments, provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States, unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department, or agent in the name of the Town.

Pooling of Cash

The Town pools all individual fund cash balances. Income is distributed to the funds based on contribution to the pool.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned, or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town.

At year-end, the carrying amounts of the Town's deposits were \$98,852 and the bank balances totaled \$243,858. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). At year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized. Restricted cash consisted of the following at June 30, 2009:

Retention program	\$ 36,527
Deposits	3,943
Asset seizures	5,502
Golf funds	15,126
	<u>\$ 61,098</u>

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Generally, the Town's investing activities are managed by the Assistant Town Manager and the Town Council. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Town funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks); 5) Bankers' acceptances from domestic banks which also include the United States affiliates of large international banks with a short-term rating of A1 from Standard and Poor's Corporation and P1 from Moody's Investor Service; 6) Money market mutual funds, highest rating by at least one recognized rating agency; 7) Commercial paper with a minimum of an A1/P1 rating by at least one recognized rating agency; 8) State of Maryland Local Government Investment Pool; 9) Bonds, notes or other obligation (with the highest rating by at least one recognized rating agency) issued by or on behalf of any state or any agency, department, county, municipal or public corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

Investments

The Town has invested at June 30, 2009, \$493,713 in the State of Maryland Local Government Investment Pool (MLGIP). The pool is under the administrative control of the State's Treasurer's Office. The Town's investments are shown by type, carrying amount, fair value, cost, and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MLGIP investments is determined daily. PNC Bank is currently contracted to operate the Pool, and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The Town's fair value position in the Pool is the same as the value of pool share. In addition, there was \$1,516,698 invested in certificates of deposit and \$241,229 invested in a money market account, all of which were covered by FDIC or by pledged collateral held in the Town's name.

**TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

As of June 30, 2009, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>	<u>Weighted Average Days to Maturity</u>
MLGIP	\$ 493,713	\$ 493,713	AAAm	50
Money Market - Suntrust Bank	241,229	241,229	N/A	30
Certificates of Deposit issued by:				
Provident Bank	545,180	545,180	N/A	731
Farmers and Merchants Bank	971,518	971,518	N/A	596
Certificates of deposit	<u>1,516,698</u>	<u>1,516,698</u>		
Total Investments	<u>\$ 2,251,640</u>			

Notes: 1- Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

2- **Interest Rate Risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

NOTE 4 - INTERFUND TRANSFERS AND BALANCES

As of June 30, 2009 the amount due to the general fund from the water enterprise fund was \$484,058 of which \$701,959 and (\$217,901) are classified as current and non-current, respectively. The purpose of this interfund transfer is to transfer excess operating cash to the general fund to help fund operating activities in this fund.

NOTE 5 – NOTE RECEIVABLE

In 2005, the Town loaned \$182,000 to Hampstead Village, LLC. The note is subordinated and bears compound interest at the rate of 5.01% per annum. The principal and all accrued interest is due and payable on December 1, 2045.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue and the amount exceeds \$100, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2009 is \$.20 per \$100 of assessed value for real property, and \$.50 per \$100 of assessed value for personal property.

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 930,123	\$ -	\$ -	\$ 930,123
Construction in progress	-	-	-	-
Subtotal	930,123	-	-	930,123
Depreciable capital assets:				
Land improvements	15,883,063	326,891	-	16,209,954
Facilities	1,357,818	3,565	-	1,361,383
Equipment	1,273,036	45,612	21,995	1,296,653
Subtotal	18,513,917	376,068	21,995	18,867,990
Total capital assets	19,444,040	376,068	21,995	19,798,113
Accumulated depreciation:				
Land improvements	10,412,355	490,424	-	10,902,779
Facilities	227,741	25,422	-	253,163
Equipment	677,079	290,948	21,995	946,032
Subtotal, accumulated depreciation	11,317,175	806,794	21,995	12,101,974
Net capital assets	\$ 8,126,865	\$ (430,726)	\$ -	\$ 7,696,139

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued

Depreciation was charged to functions as follows:

Government activities:

General government	\$ 11,499
Public safety	58,188
Public works	673,874
Parks and recreation	63,233
Total government activities depreciation expense	<u>\$ 806,794</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	\$ 72,525	\$ -	\$ -	\$ 72,525
Construction in progress	-	-	-	-
Subtotal	<u>72,525</u>	<u>-</u>	<u>-</u>	<u>72,525</u>
Other depreciable capital assets:				
Land improvements	1,259,203	-	-	1,259,203
Facilities	5,518,885	303,993	-	5,822,878
Equipment	881,549	39,478	-	921,027
Subtotal	<u>7,659,637</u>	<u>343,471</u>	<u>-</u>	<u>8,003,108</u>
Total capital assets	<u>7,732,162</u>	<u>343,471</u>	<u>-</u>	<u>8,075,633</u>
Accumulated depreciation:				
Land improvements	730,495	29,007	-	759,502
Facilities	1,570,487	106,103	-	1,676,590
Equipment	550,922	47,513	-	598,435
Subtotal accumulated depreciation	<u>2,851,904</u>	<u>182,623</u>	<u>-</u>	<u>3,034,527</u>
Net capital assets	<u>\$ 4,880,258</u>	<u>\$ 160,848</u>	<u>\$ -</u>	<u>\$ 5,041,106</u>

Depreciation was charged as follows:

Business-type activities:

Water	\$ 182,623
Total business-type activities depreciation expense	<u>\$ 182,623</u>

The Town has no material construction commitments as of June 30, 2009.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 – DEFERRED COMPENSATION PLAN

The Town established in accordance with Town Council approval a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer a portion of their salary until future years. Employees can defer the lesser of \$16,500 or 100.00% of their includable salaries over the plan year. The Town contributes up to 20% of eligible employees' salaries to this plan. During fiscal year 2009 the Town contributed \$78,255.

Effective January 1, 1998 all amounts of compensation deferred under the plan, and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for the Internal Revenue Code 457 Deferred Compensation Plan," the investments designated for compensation benefits are not reflected in the Town's financial statements.

The Plan Administrator, National Retirement Solutions, Inc., is the trustee.

NOTE 9 – PENSION PLAN

During the fiscal year ended June 30, 2008, the Town's police officers enrolled in the Maryland State Law Enforcement Officers' Pension System (LEOPS).

LEOPS benefits are established under the State Personnel and Pensions Article of the Annotated Code of Maryland. The plan is administered by the Maryland State Retirement Agency.

Members of the pension plan contribute a maximum of 4% of annual compensation during employment. The required contribution rate is determined on an actuarially determined basis. During the year ended June 30, 2009 the Town and its police officers contributed \$65,493 and \$18,523, respectively. The town contributed 100% of its required contribution for the year ended June 30, 2009. For members of the pension plan, full service pension allowances equal 2% of average final compensation (AFC) up to a maximum benefit of 60% of AFC (30 years of credit).

The Maryland State Retirement Agency issues a comprehensive annual financial report that includes disclosures regarding LEOPS. This report can be obtained from the Agency by writing to Maryland State Retirement Agency, 120 E. Baltimore Street, Suite 1601, Baltimore, Maryland 21202-1600.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10 – RETENTION PROGRAM

The Town has also established a retention program plan as of July, 2004. This program is available to key employees. The Town will make contributions to a separate account in the amount of \$2,000 per year per key employee. The contributions and related interest earnings becomes vested after five years. During fiscal 2009 the Town contributed \$12,000.

NOTE 11 – LONG-TERM DEBT

Governmental Activities

On January 19, 2000, the Town entered into an interest-bearing note payable with Westminster Union Bank (now PNC), in the amount of \$800,000, for the construction of the police station. This is a general obligation debt of the Town. The interest rate on the note will be reset on February 18, 2014. As of February 1, 2000, the Town has been required to pay the accrued interest on the first day of each month. Consolidated payments of principal and interest began on February 1, 2001, and will continue until maturity on February 1, 2019. Monthly principal and interest payments are \$5,094. The balance outstanding as of June 30, 2009 was \$484,873 and the interest rate was 4.06%.

On October 19, 2004, the Town issued a Public Improvement Bond in the amount of \$600,000 for the purpose of road improvements. This is a general obligation debt of the Town. Interest is payable semi-annually on April 1 and October 1 of each year, commencing April 1, 2005. Principal is payable on October 1 of each year, commencing October 1, 2005. The bond bears an interest rate of 3.55% per annum on the unpaid principal balance. The balance outstanding as of June 30, 2009 was \$440,000.

The changes in general long-term debt as of June 30, 2009 are summarized as follows:

Lender	Beginning Balance July 1, 2008	Retired During Year	New Loans During Year	Ending Balance June 30, 2009	Amount Due Within 1 Year
PNC Bank	\$ 523,567	\$ 38,694	\$ -	\$ 484,873	\$ 41,872
Bank of America	480,000	40,000	-	440,000	40,000
	<u>\$ 1,003,567</u>	<u>\$ 78,694</u>	<u>\$ -</u>	<u>\$ 924,873</u>	<u>\$ 81,872</u>

Interest costs charged to expense during the year ended June 30, 2009 was \$38,769.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 11 – LONG-TERM DEBT - continued

Business-Type Activities

On June 21, 2000, the Town of Hampstead entered into a 2.6% interest-bearing note payable to the Maryland Water Quality Financing Administration in the amount of \$722,587 for the construction of a new water tower. This is a general obligation debt of the Town. Interest payments are due semi-annually beginning February 1, 2001. Consolidated principal and interest payments in the amount of \$29,604 are due each February and August with the last payment due on February 1, 2022. On August 1, 2000, the Town began paying an annual administrative fee of \$2,359. Interest costs charged to expense during the year ended June 30, 2009 was \$16,153 and \$0 was capitalized. On June 30, 2009, \$496,311 was outstanding. The changes in long-term debt during the year ended June 30, 2009 follows:

	Beginning Balance July 1, 2008	Retired During Year	New Loans During Year	Ending Balance June 30, 2009	Amount Due Within 1 Year
Maryland Water Quality Financing Administration	\$ 531,177	\$ 34,866	\$ -	\$ 496,311	\$ 35,773
	<u>\$ 531,177</u>	<u>\$ 34,866</u>	<u>\$ -</u>	<u>\$ 496,311</u>	<u>\$ 35,773</u>

The principal requirements to maturity of the long-term debt of all funds are as follows:

Year(s) Ended June 30	Governmental Activities	Business-type Activities	Total
2010	\$ 81,872	\$ 35,773	\$ 117,645
2011	83,628	36,703	120,331
2012	85,416	37,658	123,074
2013	87,363	38,637	126,000
2014	89,350	39,641	128,991
2015-2019	457,244	214,214	671,458
2020-2024	40,000	93,685	133,685
	<u>\$ 924,873</u>	<u>\$ 496,311</u>	<u>\$ 1,421,184</u>

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 11 – LONG-TERM DEBT - continued

The interest requirements to maturity of the long-term debt of all funds are as follows:

Year(s) Ended June 30	Governmental Activities	Business-type Activities	Total
2010	\$ 34,164	\$ 15,246	\$ 49,410
2011	30,987	14,316	45,303
2012	27,779	13,362	41,141
2013	24,412	12,383	36,795
2014	21,005	11,378	32,383
2015-2019	50,994	40,885	91,879
2020-2024	710	8,353	9,063
	\$ 190,051	\$ 115,923	\$ 305,974

NOTE 12 – CONCENTRATION OF CREDIT RISK

The Town derives most of its revenues, except grants, from its citizens. The Town provides various services to its residents. The Town is located in northern Carroll County, Maryland. Credit is granted to its residents for back taxes and water bills. The Town may place a lien on any property associated with taxes and water services.

NOTE 13 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters.

The Town has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the Town’s general, automobile, employee, health, police and public officials’ legal liability insurance coverage. The town’s commercial insurance company provides property coverage.

This is a total risk and cost sharing pool for all participants. In the event that the Trust’s General Fund falls into a deficit that cannot be satisfied by transfers from the Trust’s capital and surplus accounts, the Trustees shall 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.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 13 – RISK MANAGEMENT - continued

Premiums are charged to the appropriate Town's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2009, and the amount of settlements has not exceeded coverage for each of the past three years.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Grants

The Town receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a result of disallowed expenditures.

Water

The Town has failed to secure new water sources during the year ended June 30, 2009. Plans to secure water resources include acquisition of an existing private well in fiscal year 2010. The Town expects additional legal expenses as a result of condemnation procedures.

Legal expenses and other related cost for permit renewal, condemnation, and ownership cannot be reasonable estimated.

NOTE 15 – FUND BALANCE REPORTING

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" is effective for the year ended June 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Town has not determined the financial statement effect of GASB No. 54.

TOWN OF HAMPSTEAD, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2009

Governmental Funds

	Original Budget	Final Budget	Actual	Variance
Revenues				
Income taxes	\$ 625,000	\$ 625,000	\$ 645,159	\$ 20,159
Property taxes	989,923	989,923	1,044,414	54,491
Other taxes	40,000	40,000	39,661	(339)
Fines, licenses and permits	42,000	42,000	42,371	371
Interest and investment earnings	133,000	133,000	129,428	(3,572)
Charges for services	32,256	32,256	32,150	(106)
Grants and contributions	759,968	759,968	723,799	(36,169)
Other revenues	106,383	106,383	105,339	(1,044)
Total Revenues	\$ 2,728,530	\$ 2,728,530	\$ 2,762,321	\$ 33,791
Expenditures				
General government	\$ 486,135	\$ 486,135	\$ 442,280	\$ 43,855
Public safety	908,503	908,503	841,627	66,876
Public works	730,428	730,428	705,189	25,239
Recreation and culture	119,904	119,904	95,818	24,086
Capital outlays	478,170	478,170	376,068	102,102
Debt service - principal	80,186	80,186	78,694	1,492
Debt service - interest	37,270	37,270	38,769	(1,499)
Total Expenditures	\$ 2,840,596	\$ 2,840,596	\$ 2,578,445	\$ 262,151