

**TOWN OF HAMPSTEAD, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2011**

TOWN OF HAMPSTEAD

TABLE OF CONTENTS

JUNE 30, 2011

	Page
INDEPENDENT AUDITOR’S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION	
• Management’s Discussion and Analysis	2 – 9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
• Statement of Net Assets	10
• Statement of Activities	11
Fund Financial Statements	
• Balance Sheet – Governmental Funds	12
• Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
• Statement of Net Assets – Proprietary Funds	14
• Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	15
• Combining Statement of Cash Flows – Proprietary Funds	15
NOTES TO BASIC FINANCIAL STATEMENTS	17 – 36
REQUIRED SUPPLEMENTARY INFORMATION	
• Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – Governmental Funds	37

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, 2011, 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, 2011, 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 11 and 37, 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.

September 21, 2011

Lindsey + Associates, LLC

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011. Please read it in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights

General Government:

- Municipal property tax rates and business personal property tax rates remained unchanged in fiscal year 2011. The Town expects development on industrial and commercial lots in the 2012 year which would increase both property and business personal property taxes.
- The largest capital expense for 2011 was paving. Continuous cuts to Highway User Revenues from State of Maryland resulted in \$185,260 of paving expenses being funded from reserves. The Town has significantly reduced the paving budget for 2012.
- There were no employee pay increases in fiscal year 2011 and there were no additions to the staff for fiscal year 2011.
- The Town's reserves were reduced by 31% in 2010 and 33% in 2011. Projects using reserves in 2011 are road paving, well acquisition and engineering for the super pump house.
- The Town improved facilities by installing new air conditioning and heating equipment at Town Hall and Public Works building. Funding was secured through the Maryland Energy Administration Energy Grants.
- Improvements to parks included resurfacing tennis and basketball courts, and installing new picnic tables and grills at Melvin Miller Memorial Park. Funding was secured through Program Open Space.

Water:

- Water rates increased ten percent in 2011. Continued rate increases are anticipated to fund needed infrastructure projects. The fiscal year 2012 budget calls for 5% increase in water rates.
- The Town secured a short term loan in the amount of \$760,000 as a result of a legal decision related to the eminent domain action of the golf course well. Additional expenses related to this case were \$174,426 in 2011.
- The Town has deferred any further action related to the Super Pump House (SPH) in North Carroll Farms. Expenses totaled \$112,535 related to this project in 2011.
- Water improvements for pump house 16 were budgeted in the capital improvement fund and paid with reserves in the amount of \$6,357.
- Industrial and commercial development within the Town may result in increased water usage and revenues.

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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.

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.

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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 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

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011

Governmental-Wide Financial Information

The following is selected information as of June 30, 2011 and for the previous year ended provided for comparison purposes.

	2011			2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 3,094,222	\$ (655,567)	\$ 2,438,655	\$ 3,077,345	\$ (1,258,564)	\$ 1,818,781
Capital assets	6,812,267	5,754,848	12,567,115	7,209,344	5,609,038	12,818,382
Total assets	9,948,114	5,340,148	15,288,262	10,320,978	4,579,701	14,900,679
Current liabilities	121,253	41,946	163,199	103,834	123,262	227,096
Long-term liabilities	796,996	1,172,381	1,969,377	884,977	452,746	1,337,723
Total liabilities	918,249	1,214,327	2,132,576	988,811	576,008	1,564,819
Net assets						
Invested in capital assets, net of related debt	6,054,692	4,571,014	10,625,706	6,368,090	5,148,501	11,516,591
Restricted	-	-	-	-	-	-
Unrestricted	2,975,173	(445,193)	2,529,980	2,964,077	(1,144,808)	1,819,269
Total net assets	9,029,865	4,125,821	13,155,686	9,332,167	4,003,693	13,335,860
Total liabilities and net assets	9,948,114	5,340,148	15,288,262	10,320,978	4,579,701	14,900,679
Program revenues						
Charges for Services	15,773	837,218	852,991	35,710	706,396	742,106
Grants and contributions	456,964	-	456,964	432,100	-	432,100
General Revenues						
Income Taxes	645,858	-	645,858	621,171	-	621,171
Property Taxes	1,214,522	-	1,214,522	1,138,152	-	1,138,152
Total general revenues	2,108,827	9,114	2,117,941	2,008,897	25	2,008,922
Total revenues and transfers	2,581,564	846,332	3,427,896	2,476,707	706,421	3,183,128
Expenses						
General government	493,458	-	493,458	433,268	-	433,268
Public Safety	907,837	-	907,837	889,265	-	889,265
Public works	1,313,821	-	1,313,821	1,392,805	-	1,392,805
Recreation and culture	137,634	-	137,634	140,253	-	140,253
Transfers	-	-	-	-	-	-
Total expenses and transfers	2,883,868	724,204	3,608,072	2,888,023	793,157	3,681,180
Change in net assets	(302,304)	122,128	(180,176)	(411,316)	(86,736)	(498,052)
Net assets, beginning of year	9,332,167	4,003,693	13,335,860	9,743,483	4,090,429	13,833,912
Net assets, end of year	9,029,865	4,125,821	13,155,686	9,332,167	4,003,693	13,335,860

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Business-type Activities

Business-type activities consist of the water department.

The Town's Funds

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2011 and percentage of increases and decreases in relation to the prior year.

	FY2011 Amount	Percent of Total	Increase (Decrease) From FY10	FY2010 Amount
Revenues				
Taxes	\$ 1,896,195	72%	\$ 98,744	\$ 1,797,451
Intergovernmental	456,964	18%	24,864	432,100
Charges for services	15,773	1%	(19,937)	35,710
Fines, licenses and permits	41,956	2%	320	41,636
Interest income	24,777	1%	(42,867)	67,644
Miscellaneous	145,899	6%	43,733	102,166
TOTAL REVENUE	<u>\$ 2,581,564</u>	<u>100%</u>	<u>\$ 104,857</u>	<u>\$ 2,476,707</u>
Expenditures				
General government	\$ 494,707	19%	\$ 72,955	\$ 421,752
Public safety	852,351	33%	22,890	829,461
Public works	713,715	28%	(34,978)	748,693
Recreation and culture	78,252	3%	(4,853)	83,105
Capital outlays	326,496	13%	40,712	285,784
Debt Service	114,797	4%	(1,254)	116,051
TOTAL EXPENDITURES	<u>\$ 2,580,318</u>	<u>100%</u>	<u>\$ 95,472</u>	<u>\$ 2,484,846</u>

The increase in taxes is attributed to the growth in the tax base. The decrease in charges in services is due to a decrease in building permits and rental housing licenses. The decrease in interest income is a result of falling interest rates. The increase in miscellaneous is the reimbursement from Maryland Emergency Management Agency for blizzard expenses that occurred in the prior year.

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

General Fund Budgetary Highlights

There were no budget revisions in fiscal year 2011. Refer to page 37 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 2011 include one Police cruiser, paving, HVAC equipment, park improvements 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>	
Police Cruiser	33,855	Pumps, Inventory	5,100
Roads	220,272	Meters	25,979
PW Buildings - HVAC	6,933	Buildings - HVAC	6,934
Town Office HVAC	27,733	PH 16 Improvements	6,357
Melvin Miller Park	37,705	Super Pump House	112,535
	<u> </u>	Oakmont Well Acquisition	<u>934,426</u>
Subtotal	326,498		1,091,331
Disposals	<u>(38,885)</u>		<u>(21,818)</u>
Change in Assets	<u><u>287,613</u></u>		<u><u>1,069,513</u></u>

Debt

At year end, the Town had \$ 1,941,409 in outstanding notes as compared to \$1,301,791 last year. This amount consists of notes on the North Water Tower, Well Acquisition, the Police Station Paving Improvements and Well Acquisition. The only other obligation of the Town is compensated absences.

**TOWN OF HAMPSTEAD, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Economic Factors and Next Year's Budgets and Rates

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

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, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 686,611	\$ -	\$ 686,611
Cash and cash equivalents - restricted	59,569	-	59,569
Investments	709,018	-	709,018
Amounts due from other governments	22,849	-	22,849
Other accounts receivable, net of allowances	-	190,360	190,360
Prepaid expenses	8,228	2,020	10,248
Other asset	-	760,000	760,000
Due from other funds	1,607,947	(1,607,947)	-
Total Current Assets	3,094,222	(655,567)	2,438,655
Noncurrent Assets			
Due from other funds	(240,867)	240,867	-
Cash and cash equivalents - restricted	26,229	-	26,229
Note receivable	256,263	-	256,263
Net capital assets	6,812,267	5,754,848	12,567,115
Total Noncurrent Assets	6,853,892	5,995,715	12,849,607
TOTAL ASSETS	\$ 9,948,114	\$ 5,340,148	\$ 15,288,262
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 14,928	\$ 4,288	\$ 19,216
Amounts held in escrow and deposits	3,979	-	3,979
Unearned revenue	2,738	-	2,738
Current portion of compensated absences	14,192	-	14,192
Current portion of long-term debt	85,416	37,658	123,074
Total Current Liabilities	121,253	41,946	163,199
Noncurrent Liabilities			
Compensated absences	98,608	26,205	124,813
Retention program	26,229	-	26,229
Loans payable - long-term	672,159	1,146,176	1,818,335
Total Noncurrent Liabilities	796,996	1,172,381	1,969,377
TOTAL LIABILITIES	918,249	1,214,327	2,132,576
NET ASSETS			
Invested in capital assets, net of related debt	6,054,692	4,571,014	10,625,706
Unrestricted	2,975,173	(445,193)	2,529,980
TOTAL NET ASSETS	9,029,865	4,125,821	13,155,686
TOTAL LIABILITIES AND NET ASSETS	\$ 9,948,114	\$ 5,340,148	\$ 15,288,262

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Direct Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
						Governmental Activities	Business-type Activities	
Primary Government								
Governmental Activities:								
General government	\$ 493,458	\$ (149,412)	\$ 8,419	\$ -	\$ -	\$ (335,627)	\$ -	\$ (335,627)
Public safety	907,837	138,188	2,946	62,663	-	(980,416)	-	(980,416)
Public works	1,313,821	33,557	4,099	-	354,640	(988,639)	-	(988,639)
Recreation and culture	137,634	8,785	309	-	39,661	(106,449)	-	(106,449)
Interest expense	31,118	(31,118)	-	-	-	-	-	-
Total Governmental Activities	2,883,868	-	15,773	62,663	394,301	(2,411,131)	-	(2,411,131)
Business-type Activities								
Water	724,204	-	837,218	-	-	-	113,014	113,014
Total Business-Type Activities	724,204	-	837,218	-	-	-	113,014	113,014
Total Primary Government	\$ 3,608,072	\$ -	\$ 852,991	\$ 62,663	\$ 394,301	\$ (2,411,131)	\$ 113,014	\$ (2,298,117)
General revenues:								
Taxes								
Income taxes						645,858	-	645,858
Property taxes						1,214,522	-	1,214,522
Other taxes						35,815	-	35,815
Licenses and permits						41,956	-	41,956
Grants and contributions						-	-	-
Interest and investment earnings						24,777	-	24,777
Miscellaneous						145,899	9,114	155,013
Total General Revenues						2,108,827	9,114	2,117,941
Transfers in (out)						-	-	-
Change in Net Assets						(302,304)	122,128	(180,176)
Net Assets, beginning of year						9,332,169	4,003,693	13,335,862
Net Assets, end of year						\$ 9,029,865	\$ 4,125,821	\$ 13,155,686

See accompanying notes to financial statements.

**TOWN OF HAMPSTEAD, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2011**

	General Fund	Total Governmental Funds		
ASSETS				
Cash and cash equivalents - unrestricted	\$ 686,611	\$ 686,611	<i>Total Governmental Fund Balances</i>	\$ 3,058,385
Cash and cash equivalents - restricted	59,569	59,569	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,812,267
Investments	709,018	709,018	Other non-current assets in governmental activities are not financial resources and therefore are not reported in the funds.	41,625
Amounts due from other governments	22,849	22,849	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>(882,412)</u>
Due from other funds	1,607,947	1,607,947	<i>Net Assets of Governmental Activities</i>	<u>\$ 9,029,865</u>
Prepaid expenses	8,228	8,228		
Total Assets	\$ 3,094,222	\$ 3,094,222		
LIABILITIES				
Accounts payable and accrued expenses	\$ 14,928	\$ 14,928		
Amounts held in escrow and deposit	3,979	3,979		
Compensated absences	14,192	14,192		
Deferred revenue	2,738	2,738		
Total Liabilities	35,837	35,837		
FUND BALANCES				
Non-Spendable	8,228	8,228		
Restricted	19,854	19,854		
Committed	32,868	32,868		
Unassigned	2,997,435	2,997,435		
TOTAL FUND BALANCES	3,058,385	3,058,385		
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,094,222	\$ 3,094,222		

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, 2011

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 1,896,195	\$ 1,896,195
Intergovernmental	456,964	456,964
Charges for services	15,773	15,773
Fines, licenses, permits	41,956	41,956
Interest Income	24,777	24,777
Miscellaneous	145,899	145,899
Total Revenues	2,581,564	2,581,564
EXPENDITURES		
Current Operations		
General government	494,707	494,707
Public safety	852,351	852,351
Public works	713,715	713,715
Recreation and culture	78,252	78,252
Capital outlays	326,496	326,496
Debt Service		
Principal	83,679	83,679
Interest	31,118	31,118
Total Expenditures	2,580,318	2,580,318
Excess of revenues over (under)		
 expenditures and other financing uses	1,246	1,246
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	1,246	1,246
Fund balance, beginning of year	3,057,139	3,057,139
Fund balance, end of year	\$ 3,058,385	\$ 3,058,385

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, 2011

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 1,246
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.	(396,493)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	83,679
Difference in accounting for compensated absences between the full accrual basis and the modified accrual basis.	9,264
<i>Change in Net Assets of Governmental Activities</i>	\$ (302,304)

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2011

	Business-Type Activities	
	Water	Total
ASSETS		
Current Assets		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable, net of allowances	190,360	190,360
Prepaid expenses	2,020	2,020
Other asset	760,000	760,000
Total Current Assets	<u>952,380</u>	<u>952,380</u>
Noncurrent Assets		
Net capital assets	5,754,848	5,754,848
Total Noncurrent Assets	<u>5,754,848</u>	<u>5,754,848</u>
TOTAL ASSETS	<u><u>\$ 6,707,228</u></u>	<u><u>\$ 6,707,228</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 1,315	\$ 1,315
Accrued expenses	2,973	2,973
Current portion of long-term debt	37,658	37,658
Due to other funds	1,367,080	1,367,080
Total Current Liabilities	<u>1,409,026</u>	<u>1,409,026</u>
Noncurrent Liabilities		
Compensated absences	26,205	26,205
Long-term debt, net of current liabilities	1,146,176	1,146,176
Total Noncurrent Liabilities	<u>1,172,381</u>	<u>1,172,381</u>
TOTAL LIABILITIES	<u>2,581,407</u>	<u>2,581,407</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,571,014	4,571,014
Restricted	-	-
Unrestricted	(445,193)	(445,193)
TOTAL NET ASSETS	<u>4,125,821</u>	<u>4,125,821</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,707,228</u></u>	<u><u>\$ 6,707,228</u></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, 2011

	Business-Type Activities	
	Water Fund	Total
Operating Revenues		
Charges for services	\$ 837,218	\$ 837,218
Miscellaneous	9,114	9,114
Total Operating Revenues	<u>846,332</u>	<u>846,332</u>
Operating Expenses		
Personnel services	292,828	292,828
Operations and maintenance	230,952	230,952
Depreciation	184,026	184,026
Total Operating Expenses	<u>707,806</u>	<u>707,806</u>
Operating Income (Loss)	<u>138,526</u>	<u>138,526</u>
Non-operating Revenues (Expenses)		
Interest and investment earnings	-	-
Interest expense	(16,398)	(16,398)
Net Non-operating Revenues (Expenses)	<u>(16,398)</u>	<u>(16,398)</u>
Income Before Contributions and Transfers	122,128	122,128
Capital contributions	-	-
Transfers (to) from other funds	<u>-</u>	<u>-</u>
	-	-
Changes in Net Assets	122,128	122,128
Total net assets at beginning of year	<u>4,003,693</u>	<u>4,003,693</u>
Total net assets at end of year	<u>\$ 4,125,821</u>	<u>\$ 4,125,821</u>

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities	
	Water	Total
Cash flows from operating activities		
Cash received from customers	\$ 815,871	\$ 815,871
Cash paid to suppliers	(314,628)	(314,628)
Cash paid to employees	(295,535)	(295,535)
Other receipts	9,114	9,114
Net cash provided (used) by operating activities	214,822	214,822
Cash flows from capital and related financing activities		
Purchases of capital assets	(329,250)	(329,250)
Proceeds from long term debt	760,000	760,000
Principal paid on debt	(36,703)	(36,703)
Interest paid on capital debt	(16,398)	(16,398)
Net cash (used) for capital and related financing activities	377,649	377,649
Cash flows from non-capital financing activities		
Purchase other asset	(760,000)	(760,000)
Transfers (to) from other funds	167,529	167,529
Net cash (used) for non-capital financing activities	(592,471)	(592,471)
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)	\$ 138,526	\$ 138,526
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	184,026	184,026
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(21,346)	(21,346)
Decrease (increase) in prepaid expense	(819)	(819)
Increase (decrease) in accounts payable	(83,260)	(83,260)
Increase (decrease) in accrued expenses	402	402
Increase (decrease) in compensated absences	(2,707)	(2,707)
Cash provided (used) by operating activities	\$ 214,822	\$ 214,822

See accompanying notes to financial statements.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011

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, 2011

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, 2011

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 as codified in the Accounting Standards CodificationTM (ASC), 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, 2010 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, 2011 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, 2011 is \$0.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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. Intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

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, 2011

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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Fund Balances

On July 1, 2010, the Town adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which significantly changed the reporting of fund balance in the balance sheets of governmental type funds.

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Town Council, the Town’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Town’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

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 2011. 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.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

On July 1, 2010, the Town adopted GASB 59, *Financial Instruments Omnibus*, which updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

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.

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.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

At year-end, the carrying amounts of the Town’s deposits were \$745,955 and the bank balances totaled \$874,048. 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, 2011:

Retention program	\$ 26,229
Deposits	3,979
Asset seizures	2,868
Golf funds	6,639
HRA fund	19,854
	\$ 59,569

Investment Policies

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

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.

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

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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, 2011, \$330 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 \$477,557 invested in certificates of deposit, all of which were covered by FDIC or by pledged collateral held in the Town’s name.

As of June 30, 2011, 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>
MLGIP	\$ 330	\$ 330	AAAm
Certificates of Deposit issued by:			
New Windsor State Bank	237,737	237,737	N/A
Fraternity Federal	239,820	239,820	N/A
Certificates of deposit	<u>477,557</u>	<u>477,557</u>	
PNC - Money Market	<u>231,131</u>	<u>231,131</u>	N/A
Total Investments	<u>\$ 709,018</u>	<u>\$ 709,018</u>	

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

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 - INTERFUND TRANSFERS AND BALANCES

As of June 30, 2011 the amount due to the general fund from the water enterprise fund was \$1,367,080 of which \$1,607,947 and (\$240,867) are classified as current and non-current, respectively. The purpose of these interfund transfers is to transfer cash to and from the general fund to help fund operating activities in the water enterprise 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.

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 2011 is \$.20 per \$100 of assessed value for real property, and \$.50 per \$100 of assessed value for personal property.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011 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	16,451,015	-	-	16,451,015
Facilities	1,370,910	5,458	-	1,376,368
Equipment	1,325,652	321,038	38,885	1,607,805
Subtotal	19,147,577	326,496	38,885	19,435,188
Total capital assets	20,077,700	326,496	38,885	20,365,311
Accumulated depreciation:				
Land improvements	11,504,174	555,729	-	12,059,903
Facilities	280,817	27,693	-	308,510
Equipment	1,083,949	139,567	38,885	1,184,631
Subtotal, accumulated depreciation	12,868,940	722,989	38,885	13,553,044
Net capital assets	\$ 7,208,760	\$ (396,493)	\$ -	\$ 6,812,267

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 11,881
Public safety	54,938
Public works	596,731
Parks and recreation	59,439
Total government activities depreciation expense	<u>\$ 722,989</u>

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued

	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	6,525,024	321,105	-	6,846,129
Equipment	963,723	8,145	21,818	950,050
Subtotal	<u>8,747,950</u>	<u>329,250</u>	<u>21,818</u>	<u>9,055,382</u>
Total capital assets	<u>8,820,475</u>	<u>329,250</u>	<u>21,818</u>	<u>9,127,907</u>
Accumulated depreciation:				
Land improvements	782,493	22,227	-	804,720
Facilities	1,797,772	128,948	-	1,926,720
Equipment	630,586	32,851	21,818	641,619
Subtotal accumulated depreciation	<u>3,210,851</u>	<u>184,026</u>	<u>21,818</u>	<u>3,373,059</u>
Net capital assets	<u>\$ 5,609,624</u>	<u>\$ 145,224</u>	<u>\$ -</u>	<u>\$ 5,754,848</u>

Depreciation was charged as follows:

Business-type activities:	
Water	<u>\$ 184,026</u>
Total business-type activities depreciation expense	<u><u>\$ 184,026</u></u>

The Town has no material construction commitments as of June 30, 2011.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 2011 the Town contributed \$77,608.

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, 2011 the Town and its police officers contributed \$98,400 and \$18,176, respectively. The Town contributed 100% of its required contribution for the year ended June 30, 2010. 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, 2011

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 2011 the Town contributed \$6,000.

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, 2011 was \$397,575 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, 2011 was \$360,000.

The changes in general long-term debt as of June 30, 2011 are summarized as follows:

Lender	Beginning Balance July 1, 2010	Retired During Year	New Loans During Year	Ending Balance June 30, 2011	Amount Due Within 1 Year
PNC Bank	\$ 441,254	\$ 43,679	\$ -	\$ 397,575	\$ 45,416
Bank of America	400,000	40,000	-	360,000	40,000
	<u>\$ 841,254</u>	<u>\$ 83,679</u>	<u>\$ -</u>	<u>\$ 757,575</u>	<u>\$ 85,416</u>

Interest costs charged to expense during the year ended June 30, 2011 was \$31,118.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011 was \$14,316 and \$0 was capitalized. On June 30, 2011, \$423,834 was outstanding.

On September 24, 2010, the Town entered into a promissory note payable to PNC Bank in the amount of \$760,000 for the purpose of purchasing land for a well pursuant to a legal judgment. The interest rate is 5% per annum. Monthly payments of interest only began on October 24, 2010, with an original maturity date of March 24, 2011. The maturity date was later extended through June 24, 2011. Subsequent to June 30, 2011, the maturity date was extended until January 31, 2012. All other terms and conditions remain the same. On June 30, 2011, the principal balance outstanding was \$760,000.

On February 22, 2011, the Town obtained a line of credit with Farmers & Merchants Bank in the maximum amount of \$300,000. The line is collateralized by the Town's money market account. Interest is payable monthly at an annual rate equal to 2% above the Farmers and Merchants Bank certificate of deposit rate. The outstanding balance at June 30, 2011 is \$0.

The changes in long-term debt during the year ended June 30, 2011 follows:

	Beginning Balance July 1, 2010	Retired During Year	New Loans During Year	Ending Balance June 30, 2011	Amount Due Within 1 Year
Maryland Water Quality					
Financing Administration	\$ 460,537	\$ 36,703	\$ -	\$ 423,834	\$ 37,658
Farmers & Merchants	-	-	760,000	760,000	760,000
	<u>\$ 460,537</u>	<u>\$ 36,703</u>	<u>\$ 760,000</u>	<u>\$ 1,183,834</u>	<u>\$ 797,658</u>

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – LONG-TERM DEBT - continued

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
2012	\$ 85,416	\$ 797,658	\$ 883,074
2013	87,363	38,637	126,000
2014	89,350	39,641	128,991
2015	91,421	40,672	132,093
2016	93,558	41,729	135,287
2017-2021	310,467	225,497	535,964
	<u>\$ 757,575</u>	<u>\$ 1,183,834</u>	<u>\$ 1,941,409</u>

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
2012	\$ 27,779	\$ 13,362	\$ 41,141
2013	24,412	12,383	36,795
2014	21,005	11,378	32,383
2015	17,515	10,348	27,863
2016	13,958	9,290	23,248
2017-2021	34,189	29,600	63,789
	<u>\$ 138,858</u>	<u>\$ 86,361</u>	<u>\$ 225,219</u>

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.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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, 2010, 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 expects legal expenses as a result of condemnation procedures relating to a well. Legal expenses and other related costs for permit renewal, condemnation, and ownership cannot be reasonable estimated.

Litigation

In the normal course of business, the Town is involved in one lawsuit at June 30, 2011. Refer to footnote 18 for additional information.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 15 – DEFICIT OF UNRESTRICTED NET ASSETS

Business-Type Activities

For the year ended June 30, 2011 the Town has a deficit of unrestricted net assets of (\$1,205,193). Management anticipates increasing water rates and updating impact fees to increase revenue to close the deficit. Management also is planning a \$2,000,000 bond issue for fiscal year 2011.

NOTE 16 – FUND BALANCE REPORTING

As disclosed in Note 1, the Town adopted the provisions of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances for the Town's governmental funds consisted of the following as of June 30, 2011:

Non-Spendable Fund Balance

The non-spendable fund balance on the general fund is made up of prepaid expenses totaling \$8,228 that is not in spendable form.

Restricted Fund Balance

The restricted fund balance in the general fund is comprised of \$19,854 in Health Reimbursement Account funds.

Committed Fund Balance

The committed fund balance in the general fund is made up of \$26,229 in retention program deposits and \$6,639 in golf funds.

NOTE 17 – OTHER ASSET

As part of a court mandated settlement, the Town was required to pay \$760,000 in conjunction with an eminent domain case involving a well acquisition. As of June 30, 2011, the Town's payment was held in escrow with the court and title to the land had not passed to the Town. This amount is listed on the financial statements as an other asset.

TOWN OF HAMPSTEAD, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued in December 2009, effective for financial statements for periods beginning after June 15, 2011.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010, effective for financial statements for periods beginning after June 15, 2012.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision – an amendment of GASB Statement No. 53*, issued June 2011, effective for financial statements for periods beginning after June 15, 2011.

The Town will implement these statements as necessary as of their effective dates. While the Town is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Town.

NOTE 19 – SUBSEQUENT EVENT

The Town entered into a note payable with Farmers & Merchants Bank for \$760,000 that matured on June 24, 2011. Subsequent to June 30, 2011, the Town entered into a new promissory note with the bank to extend the maturity date until January 31, 2012. All other terms and conditions remain the same.

Management has evaluated subsequent events through September 21, 2011, the date that the financial statements were available to be issued.

TOWN OF HAMPSTEAD, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2011

	Governmental Funds			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Income taxes	\$ 650,000	\$ 650,000	\$ 645,858	\$ (4,142)
Property taxes	1,269,000	1,269,000	1,214,522	(54,478)
Other taxes	40,000	40,000	35,815	(4,185)
Fines, licenses and permits	47,250	47,250	41,956	(5,294)
Interest and investment earnings	47,000	47,000	24,777	(22,223)
Charges for services	11,960	11,960	15,773	3,813
Grants and contributions	388,659	388,659	456,964	68,305
Other revenues	112,080	112,080	145,899	33,819
Total Revenues	\$ 2,565,949	\$ 2,565,949	\$ 2,581,564	\$ 15,615
Expenditures				
General government	\$ 258,088	\$ 258,088	\$ 289,911	\$ (31,823)
Public safety	870,916	870,916	800,201	70,715
Public works	924,976	924,976	677,143	247,833
Recreation and culture	84,204	84,204	69,718	14,486
Capital outlays	-	-	326,496	(326,496)
Miscellaneous	313,149	313,149	302,052	11,097
Debt service - principal	83,776	83,776	83,679	97
Debt service - interest	30,840	30,840	31,118	(278)
Total Expenditures	\$ 2,565,949	\$ 2,565,949	\$ 2,580,318	\$ (14,369)