



BURGESS AND COMMISSIONERS
OF MIDDLETOWN

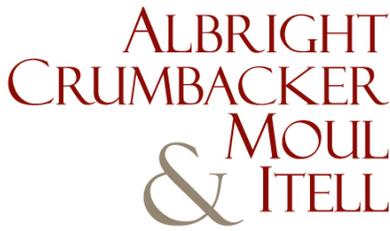


FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

BURGESS AND COMMISSIONERS OF MIDDLETOWN

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 7
Financial Statements:	
Government - Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Fund	10
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Fund	13
Statement of Net Assets - Proprietary Fund	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund	15
Statement of Cash Flows - Proprietary Fund	16 - 17
Notes to Financial Statements	18 - 26
Required Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	27 - 30
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Budget and Actual - Water and Sewer Fund	31 - 33
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	34 - 35



*Certified
Public
Accountants
& Business
Consultants*

Independent Auditor's Report

The Burgess and Commissioners of Middletown

Middletown, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of **The Burgess and Commissioners of Middletown (“the Town”)** as of June 30, 2012, and for the year then ended, 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's management. Our responsibility is to express an 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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, and each major fund of the Town as of June 30, 2012, 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 (GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the included supplementary information, such as management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Albright Crumbacker Moul & Itell, LLC

Hagerstown, Maryland
October 31, 2012

**The Burgess and Commissioners of Middletown
Management's Discussion and Analysis
June 30, 2012**

Within this section of The Burgess and Commissioners of Middletown's ("the Town") annual financial report, Management provides an overall review of the Town's financial activities for the fiscal year ended June 30, 2012. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The Town's assets exceeded its liabilities by \$13,706,732 (net assets) for the fiscal year ending June 30, 2012.
- Total net assets are comprised of the following:
 - (1) Invested in capital assets of \$11,689,987 include property and equipment (\$24,377,191), net of accumulated depreciation (\$8,713,203) and net of outstanding debt (\$3,974,002) including the line of credit related to the purchase or construction of capital assets.
 - (2) Unrestricted net assets of \$2,016,745 represent the portion of assets available to maintain the Town's continuing obligations to its citizens and creditors.
- The Town's governmental funds reported total ending unrestricted fund balance of \$2,107,548 this fiscal year. This compares to the prior year ending fund balance of \$2,028,695 reflecting an increase of \$78,853.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted fund balance of (\$90,803), slightly lower than the (\$93,541) reported for the prior fiscal year.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Town also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the readers with a broad overview of the Town's finances. These statements provide both long-term and short-term information about the Town's overall status. Financial reporting at this level uses a perspective similar to that found in a private-sector business.

The *Statement of Net Assets* presents financial information with respect to the Town's assets and liabilities, with the difference reported as *Net Assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating.

The *Statement of Activities* reports how the Town's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or related cash flows ("accrual method of accounting"). Thus, current year revenues and expenses are included regardless of when cash is received or paid. The design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers. Revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinctively report governmental activities of the Town that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities that

are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, and public services. Business-type activities include water utilities, solid waste management, building permits and park reservations. Fiduciary activities such as employee pension plans are not included in the government-wide statements since these assets are not available to fund Town programs. However, the Town's portion of pension expense is recognized in the Town's financial statements.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. In contrast to the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. All of the funds of the Town are divided into two categories: governmental funds and proprietary funds.

- *Governmental Funds* – are reported in the fund financial statements and encompass essentially the same functions reported as government-wide financial statements. The focus, however, is very different. Governmental fund financial statements provide a distinctive view of the Town's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the fiscal year and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating annual financing requirements of governmental programs and commitment of spendable resources for the near-term.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Budgetary comparison statements are included in the basic financial statements for the general fund.

- *Proprietary Funds* – Proprietary funds are reported in the fund financial statements and generally report services for which the Town charges customers or other units in the Town. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The Town's enterprise funds are 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, for proprietary funds.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Financial Analysis of the Town as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Town as a whole.

The Town's net assets (assets over liabilities) at fiscal year-end are \$13,706,732. This is a \$593,446 increase over last year's net assets of \$13,113,286. The following table provides a summary of the Town's net assets at June 30, 2012 and 2011:

Table 1
Town of Middletown
Fiscal Year Ended June 30, 2012

	Governmental Activities		Business-Type Activities		Totals		Amount Change	% Change
	2012	2011	2012	2011	2012	2011		
Assets:								
Current Assets	\$2,235,523	\$ 2,369,066	\$ 658,189	\$ 739,382	\$ 2,893,712	\$ 3,108,448	\$(214,736)	(6.9)
Capital Assets	6,938,474	6,650,779	8,725,514	8,978,385	15,663,988	15,629,164	34,824	0.2
Other Assets	4,697	5,038	27,877	32,660	32,574	37,698	(5,124)	(13.6)
Total Assets	<u>\$9,178,694</u>	<u>\$ 9,024,883</u>	<u>\$ 9,411,580</u>	<u>\$9,750,427</u>	<u>\$ 18,590,274</u>	<u>\$ 18,775,310</u>	<u>\$(185,036)</u>	<u>(1.0)</u>
Liabilities:								
Current & Other Liabilities	\$ 242,095	\$ 465,430	\$ 913,051	\$1,287,354	\$ 1,155,146	\$ 1,752,784	\$(597,638)	(34.1)
Long-Term Liabilities	929,182	1,038,605	2,799,214	2,870,634	3,728,396	3,909,240	(180,844)	(4.6)
Total Liabilities	<u>1,171,277</u>	<u>1,504,035</u>	<u>3,712,265</u>	<u>4,157,988</u>	<u>4,883,542</u>	<u>5,662,024</u>	<u>(778,482)</u>	<u>(13.7)</u>
Net assets:								
Invested in capital assets, net of related debt	5,899,869	5,492,152	5,790,118	5,685,980	11,689,987	11,178,132	511,855	4.6
Unrestricted	<u>2,107,548</u>	<u>2,028,695</u>	<u>(90,803)</u>	<u>(93,541)</u>	<u>2,016,745</u>	<u>1,935,154</u>	<u>81,591</u>	<u>4.2</u>
Total Net Assets	<u>8,007,417</u>	<u>7,520,847</u>	<u>5,699,315</u>	<u>5,592,439</u>	<u>13,706,732</u>	<u>13,113,286</u>	<u>593,446</u>	<u>4.5</u>
Total Liabilities and Net Assets	<u>\$9,178,694</u>	<u>\$ 9,024,883</u>	<u>\$ 9,411,580</u>	<u>\$9,750,427</u>	<u>\$ 18,590,274</u>	<u>\$ 18,775,310</u>	<u>\$(185,036)</u>	

Governmental Activities include such assets as the Town Hall, Vehicles and Parks. Business-type Activities include Water and Sewer assets. The largest portion of the Town's net assets reflects its investments in capital assets (i.e. land, buildings, equipment, infrastructure), less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Town uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources.

Governmental Activities

Table 2 shows the Town's revenue and expenses of the governmental and business-type activities. As shown, governmental activities increased the Town's net assets by \$486,570 or 82% of the total growth in the Town's net assets. This compares to the previous year when governmental activities increased the Town's net assets by \$631,514 or 93%.

The Town's revenues from governmental activities totaled \$2,710,023 for the fiscal year ended June 30, 2012. Revenue from taxes represented 90% of total revenue. The major source of revenue for the Town was property taxes of \$1,294,505 comprised of real estate and personal property. State shared taxes of \$785,064 which includes state income and highway user taxes.

The Town's expenses from governmental activities totals \$2,223,453 for the fiscal year ended June 30, 2012. Expenses of General government were the largest expense at \$813,881 or 37% and public services the second largest expense at \$654,772 or 29%.

Table 2
Changes in the Town of Middletown's Net Assets
Fiscal Year Ended June 30, 2012

	Governmental Activities		Business-Type Activities		Totals		Amount	%
	2012	2011	2012	2011	2012	2011	Change	Change
Revenues								
General Revenues								
Property Taxes	\$ 1,294,505	\$ 1,251,696	\$ -	\$ -	\$ 1,294,505	\$ 1,251,696	\$ 42,809	3.4
Income Taxes	725,954	711,087	-	-	725,954	711,087	14,867	2.1
Highway Taxes	59,110	19,421	-	-	59,110	19,421	39,689	204.4
Other Taxes	332,861	330,351	-	-	332,861	330,351	2,510	0.8
Other Income	37,359	40,847	404,634	352,148	441,993	392,995	48,998	12.5
Investment Income	1,992	4,828	3	5	1,995	4,833	(2,838)	(58.7)
Program Revenues								
Charges for Services	17,857	21,510	1,180,144	1,132,496	1,198,001	1,154,006	43,995	3.8
Operating Grants	32,520	15,126	1,000	-	33,520	15,126	18,394	121.6
Capital Grants	205,800	368,153	-	-	205,800	368,153	(162,353)	(44.1)
Total Revenues	2,707,958	2,763,019	1,585,781	1,484,649	4,293,739	4,247,668	46,071	1.1
Expenditures								
General Government	811,816	787,005	-	-	811,816	787,005	24,811	3.2
Public Safety	366,220	358,744	-	-	366,220	358,744	7,477	2.1
Parks and Recreation	81,235	69,530	-	-	81,235	69,530	11,705	16.8
Public Services	654,772	611,683	-	-	654,772	611,683	43,089	7.0
Depreciation and Amortization	253,720	244,447	377,109	373,919	630,829	618,366	12,463	
Interest Expense	53,625	60,096	104,588	115,431	158,213	175,527	(17,315)	(9.9)
Water/Sewer Utilities		-	997,208	944,702	997,208	944,702	52,506	5.6
Total Expenditures	2,221,388	2,131,505	1,478,905	1,434,052	3,700,293	3,565,557	134,736	3.8
Change in Net Assets	486,570	631,514	106,876	50,597	593,446	682,111	(88,665)	(13.0)
Beginning Net Assets	7,520,847	6,889,333	5,592,439	5,541,842	13,113,286	12,431,175	682,111	5.5
Total Net Assets	\$ 8,007,417	\$ 7,520,847	\$ 5,699,315	\$ 5,592,439	\$ 13,706,732	\$ 13,113,286	\$ 593,446	4.5

Business-type Activities

Referring to Table 2, the Town's business-type activities include the water and sewer fund. The net assets of these activities increased by \$106,876 for the fiscal year ended June 30, 2012. The major source of revenue is utility service charges for water and sewer which was \$1,028,628 representing 65% of total revenues.

Financial Analysis of the Town's Fund

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year. The General Fund is the chief operating fund of the Town. For the fiscal year ended June 30, 2012, the Town's governmental fund increased by \$78,853 to a balance of \$2,107,548. This amount constitutes the unreserved fund balance, which is generally available for spending at the Town's discretion. This amount represents 94.8% of total General Fund expenditures, a measure of the General Funds liquidity. However, GASB 54 requires further detail regarding the fund balance which provides a measure of the Town's liquidity. (See Note 1 to the financial statements).

Proprietary or Business-type Funds - The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Town's Water and Sewer Fund for the fiscal year ended June 30, 2012 reported a balance of (\$90,803).

Capital Assets and Debt Administration

Capital Assets - The Town of Middletown's investment in capital assets, including construction in progress ("CIP"), for its governmental and business-type activities as of June 30, 2012 was \$15,663,988, net of depreciation. This investment includes land, buildings, improvements, water and sewer distribution systems, roads and sidewalks, machinery and equipment and construction in progress. More detailed information regarding the Town's capital assets can be found in Notes 1 and 3 to the financial statements.

Major capital asset events during the fiscal year included the following:

- Completed Construction of Remsberg Park Infrastructure and Playing Fields
- Purchase of Land to Enhance the Town's Walking Trails
- New Paving of Memorial Park Basketball Court and Parking Lot
- New Paving of Town's Maintenance Facility Roads
- Computer Hardware and Software Upgrades
- New HVAC System and Roof Replacement of Municipal Center
- Commenced Engineering Design for Replacing Walnut Street Bridge
- Installation of Water Hydraulic System Software to Monitor Town's Water Flow
- Installation of Magnesium Filter at Brookridge Water Facility
- Upgrade/Replace Existing Water Main and Service Connections along West Main Street

Capital Assets at Year-End (Net of Depreciation)

The Town's investment in Capital Assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2012 was \$6,938,474 and \$8,725,514, respectively. The increase in net investment for governmental was 4.3%; whereas, the business type activities decreased (2.8%). The overall increase was .2% for the Town as a whole.

Table 3
Town of Middletown's Capital Assets (net of depreciation)
Fiscal Year Ended June 30, 2012

	Governmental Activities		Business-Type Activities		Totals		Amount Change	% Change
	2012	2011	2012	2011	2012	2011		
Non-Depreciable Assets:								
Land	\$ 3,752,165	\$ 3,008,508	\$ 403,196	\$ 403,196	\$ 4,155,361	\$ 3,411,704	\$ 743,657	21.8
Construction In Progress	346,024	732,868	19,265	38,556	365,289	771,424	(406,135)	(52.6)
Depreciable Assets:								
Buildings	877,782	860,253	815	1,838	878,597	862,091	16,506	1.9
Machinery & Equipment	247,542	282,878	35,037	11,845	282,579	294,723	(12,144)	(4.1)
Parks & Recreation	409,460	396,408			409,460	396,408	13,052	3.3
Vehicles	77,419	95,974	54,400	62,504	131,819	158,478	(26,659)	(16.8)
Streets	1,228,082	1,273,889			1,228,082	1,273,889	(45,807)	(3.6)
Sewer Distribution			4,002,635	4,183,666	4,002,635	4,183,666	(181,031)	(4.3)
Water Distribution			4,198,478	4,264,658	4,198,478	4,264,658	(66,180)	(1.6)
Springs			11,688	12,122	11,688	12,122	(434)	(3.6)
Total	\$6,938,474	\$6,650,778	\$8,725,514	\$8,978,385	\$15,663,988	\$15,629,163	\$ 34,825	0.2

Long-Term Debt

As disclosed in the following table, total long-term debt, excluding the line of credit, was \$3,537,140 representing repayments of \$435,225 during the fiscal year ended June 30, 2012. Refer to Note 4 to the Financial Statements for more detailed information.

Table 4
Town of Middletown's Long-term Debt
Fiscal Year Ended June 30, 2012

	Governmental Activities		Business-Type Activities		Totals		Amount Change	% Change
	2012	2011	2012	2011	2012	2011		
Mortgage Payable - Park and Recreation Land	\$ 844,605	\$ 932,821			\$ 844,605	\$ 932,821	\$ (88,216)	(9.5)
Infrastructure Bonds - Street Expansion	194,000	204,000			194,000	204,000	(10,000)	(4.9)
Infrastructure Bonds - Water Distribution			300,000	324,385	300,000	324,385	(24,385)	(7.5)
Infrastructure Bonds - Water Distribution			496,350	585,800	496,350	585,800	(89,450)	(15.3)
Water Quality Loan - I & I			36,469	72,359	36,469	72,359	(35,890)	(49.6)
Water Quality Loan - WWTP			1,665,716	1,853,000	1,665,716	1,853,000	(187,284)	(10.1)
Total	\$1,038,605	\$1,136,821	\$2,498,535	\$2,835,544	\$3,537,140	\$3,972,365	\$(435,225)	(11.0)

Economic Environment

The Town's economic environment is dependent on the Town's ability to balance residential and commercial growth within the city limits while seeking to grow tax revenues to maintain its current level of service to the Town's residents. In efforts to accomplishment both of these goals, the Town is moving forward with a residential project managed by Hailey Development, LLC. who has agreed to purchase thirty-five allocated water taps with the intent to build approximately eighty homes over the next few years. Additionally, the Town continues its progress of the nine acre commercial development located at the east end of the Town with the property's owner. The additional tax revenues that the Town will receive will offset the public service expenses of the residential development but there will be no additional costs to the Town for the commercial development.

Although the Town continues to raise Water and Sewer Rates, these mandatory rate increases are due to the increases of operating expenses driven by higher costs associated with the purchase of petroleum products and regulations enacted by the Federal and State governments.

Contacting the Town's Financial Management

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Town's Financial Officer at 31 West Main Street, Middletown, Maryland 21769.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF NET ASSETS
June 30, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 2,000,820	\$ 309,218	\$ 2,310,038
Receivables:			
Taxes	6,607	-	6,607
Customers accounts	-	334,115	334,115
Other	27,592	-	27,592
Due from other governments	113,422	-	113,422
Due from BB&T	47,159	-	47,159
Other assets	39,923	14,856	54,779
Property, plant, and equipment, net of accumulated depreciation	6,592,450	8,725,514	15,317,964
Construction in progress	346,024	-	346,024
Bond and loan costs, net of amortization	4,697	27,877	32,574
TOTAL ASSETS	\$ 9,178,694	\$ 9,411,580	\$ 18,590,274
LIABILITIES			
Accounts payable	\$ 109,042	\$ 26,838	\$ 135,880
Bank overdraft	-	505,410	505,410
Current maturities of long-term debt	109,423	344,805	454,228
Accrued operating expenses	23,630	32,669	56,299
Bonds and notes payable	929,182	2,153,730	3,082,912
Line of credit	-	436,862	436,862
Accrued inflow & infiltration liability	-	150,000	150,000
Accrued sludge removal liability	-	42,450	42,450
Other accrued liabilities	-	19,501	19,501
TOTAL LIABILITIES	1,171,277	3,712,265	4,883,542
NET ASSETS			
Invested in capital assets, net of related debt	5,899,869	5,790,118	11,689,987
Unrestricted	2,107,548	(90,803)	2,016,745
TOTAL NET ASSETS	8,007,417	5,699,315	13,706,732
TOTAL LIABILITIES AND NET ASSETS	\$ 9,178,694	\$ 9,411,580	\$ 18,590,274

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES

June 30, 2012

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE 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	\$ 811,816	\$ 15,867	\$ -	\$ -	\$ (795,949)	\$ -	\$ (795,949)
Public safety	366,220	-	-	14,894	(351,326)	-	(351,326)
Parks and recreation	81,235	1,990	2,500	205,800	129,055	-	129,055
Public services	654,772	-	15,126	-	(639,646)	-	(639,646)
Depreciation and amortization	253,720	-	-	-	(253,720)	-	(253,720)
Interest	53,625	-	-	-	(53,625)	-	(53,625)
Total governmental activities	<u>2,221,388</u>	<u>17,857</u>	<u>17,626</u>	<u>220,694</u>	<u>(1,965,211)</u>	<u>-</u>	<u>(1,965,211)</u>
Business-type activities:							
Water and sewer utilities	<u>1,478,905</u>	<u>1,180,144</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(298,761)</u>	<u>(298,761)</u>
Total business-type activities	<u>1,478,905</u>	<u>1,180,144</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(298,761)</u>	<u>(298,761)</u>
Total primary government	<u>\$ 3,700,293</u>	<u>\$ 1,198,001</u>	<u>\$ 17,626</u>	<u>\$ 220,694</u>	<u>(1,965,211)</u>	<u>(298,761)</u>	<u>(2,263,972)</u>
General revenues:							
Taxes							
Property					1,294,505	-	1,294,505
Income					725,954	-	725,954
Highway					59,110	-	59,110
Other					371,485	-	371,485
Other income (expense)					(1,265)	405,637	404,372
Interest income					1,992	-	1,992
Total general revenues					<u>2,451,781</u>	<u>405,637</u>	<u>2,857,418</u>
Change in net assets					486,570	106,876	593,446
Net assets - beginning of year					<u>7,520,847</u>	<u>5,592,439</u>	<u>13,113,286</u>
Net assets - end of year					<u>\$ 8,007,417</u>	<u>\$ 5,699,315</u>	<u>\$ 13,706,732</u>

The accompanying notes are an integral part of these financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2012

	<u>2012</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,000,820
Receivables:	
Taxes	6,607
Other	27,592
Due from other governments	160,581
Other assets	44,620
	<u> </u>
TOTAL ASSETS	<u>\$ 2,240,220</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 109,042
Accrued operating expenses	23,630
	<u> </u>
TOTAL LIABILITIES	<u>132,672</u>
<u>FUND BALANCE</u>	
Non-spendable	39,780
Committed	419,800
Unassigned	1,647,968
	<u> </u>
TOTAL FUND BALANCE	<u>2,107,548</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,240,220</u>

The accompanying notes are an integral part of these financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
June 30, 2012

	<u>2012</u>
Fund Balances - total governmental funds	\$ 2,107,548
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund	
Governmental capital assets, net	6,938,474
Long-term liabilities are not due and payable in 2012 and therefore are not reported in the governmental fund	<u>(1,038,605)</u>
Net Assets of Governmental Activities	<u>\$ 8,007,417</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
June 30, 2012

	2012
REVENUES	
Taxes:	
Local	\$ 1,294,505
State shared	785,064
County shared	332,861
Other	38,624
Grants:	
Capital	205,800
Operating	32,520
Licenses and permits	15,867
Service charges	1,990
Interest income	1,992
Other revenues	1,265
	2,710,488
Total Revenues	2,710,488
EXPENDITURES	
General government	876,853
Public safety	366,220
Parks and recreation	401,534
Public services	813,382
Debt service:	
Principal	120,021
Interest	53,625
	2,631,635
Total Expenditures	2,631,635
Net change in fund balance	78,853
Fund balance, beginning of year	2,028,695
Fund balance, end of year	\$ 2,107,548

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
June 30, 2012

	2012
Net change in Fund Balances - total governmental funds	\$ 78,853
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their estimated useful lives. The amount by which capital outlays exceed current year depreciation expense is a required adjustment.	290,569
The issuance of long-term debt (e.g. bonds, leases, and notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has an effect on net assets. This amount represents current year principal payments on long-term debt obligations.	120,021
Revenues and expenditures are reported on the accrual basis of accounting in the statement of activities and in the governmental funds when they provide for or use current financial resources. This is the net difference of revenues and expenditures recognized between the governmental funds and the statement of activities.	(2,873)
Change in Net Assets of Governmental Funds	\$ 486,570

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF NET ASSETS - PROPRIETARY FUND (WATER AND SEWER)
June 30, 2012

<u>ASSETS</u>	2012
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	\$ 309,218
Receivables:	
Customers accounts	334,115
Other assets	14,856
	658,189
TOTAL CURRENT ASSETS	658,189
<u>CAPITAL ASSETS</u>	
Property, plant, and equipment, net of accumulated depreciation	8,725,514
Bond and loan costs, net of amortization	27,877
	8,753,391
TOTAL CAPITAL ASSETS	8,753,391
TOTAL ASSETS	\$ 9,411,580
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Bank overdraft	\$ 505,409
Current maturities of long-term debt	344,805
Accounts payable	26,838
Accrued expenses	32,669
Other liabilities	3,330
	913,051
TOTAL CURRENT LIABILITIES	913,051
<u>NON-CURRENT LIABILITIES</u>	
Bonds and notes payable	2,153,730
Line of credit	436,862
Accrued inflow & infiltration liability	150,000
Accrued sludge removal liability	42,450
Other accrued liabilities	16,172
	2,799,214
TOTAL NON-CURRENT LIABILITIES	2,799,214
TOTAL LIABILITIES	3,712,265
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,790,118
Unrestricted	(90,803)
	5,699,315
TOTAL NET ASSETS	5,699,315
TOTAL LIABILITIES AND NET ASSETS	\$ 9,411,580

The accompanying notes are an integral part of these financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2012

	2012
<u>OPERATING REVENUES</u>	
Charges for services:	
Water fees	\$ 507,375
Sewer fees	506,864
Late payment fees	14,389
Water tower cell phone antenna leases	151,516
	1,180,144
TOTAL OPERATING REVENUES	
<u>OPERATING EXPENSES</u>	
Administrative	201,073
Depreciation and amortization	377,109
Water expenses	281,635
Sewer expenses	514,501
	1,374,318
TOTAL OPERATING EXPENSES	
OPERATING INCOME (LOSS)	(194,174)
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Capital improvement fees	107,210
Connection fees	105,000
Debt service fees	134,500
Improvement fees	45,000
Interest expense	(104,588)
Other non-operating revenues	13,928
	301,050
TOTAL NON-OPERATING REVENUES (EXPENSES)	
CHANGE IN NET ASSETS	106,876
TOTAL NET ASSETS, BEGINNING OF YEAR	5,592,439
TOTAL NET ASSETS, END OF YEAR	\$ 5,699,315

The accompanying notes are an integral part of these financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER & SEWER)
FOR THE YEAR ENDED JUNE 30, 2012

	2012
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash received from customers	\$ 1,179,049
Cash paid to suppliers, employees, and professional contractors	(1,211,392)
NET CASH USED BY OPERATING ACTIVITIES	(32,343)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of capital assets	(119,455)
Principal payments on notes payable	(337,010)
Interest paid on notes payable	(107,571)
Capital improvement fees	102,062
Debt service fees	132,882
Connection fees	105,000
Improvement fees	45,000
Line of credit	(20,000)
Other	16,245
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(182,847)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest income	3
NET CASH PROVIDED BY INVESTING ACTIVITIES	3
INCREASE (DECREASE) IN CASH	(215,187)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (net of bank overdraft)	18,996
CASH AND CASH EQUIVALENTS AT END OF YEAR (net of bank overdraft)	\$ (196,191)

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER & SEWER)
FOR THE YEAR ENDED JUNE 30, 2012

	2012
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u>	
<u>PROVIDED BY OPERATING ACTIVITIES</u>	
Operating income (loss)	\$ (194,174)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	377,109
Loss on disposal of assets	(2,873)
(Increase) decrease in:	
Customer accounts receivable	(10,511)
Other receivables	(291)
Other assets	(1,628)
Increase (decrease) in:	
Accounts payable	(26,207)
Accrued operating expenses	(11,218)
Accrued sludge removal liability	(254,650)
Accrued inflow & infiltration liability	75,000
Other accrued liabilities	17,100
	(32,343)
NET CASH USED BY OPERATING ACTIVITIES	\$ (32,343)

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies

Organization

The Burgess and Commissioners of Middletown (the Town) operates under a Burgess-Commissioners form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, and general administrative services.

Government - Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole. The statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities; and (3) operating grants and contributions which fund the acquisition, construction or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Town have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing U.S. governmental accounting and financial reporting principles. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues, and investment income. Generally, governmental grants are cost-reimbursement agreements; accordingly, revenues are recognized as expenditures are incurred.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fund Types

The following fund types are used by the Town:

Governmental Fund

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.

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs of providing water and sewer services to the general public on a continuing basis are financed through user charges.

Capital Assets

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Depreciation of all capital assets is recorded in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Buildings	20 to 25 Years
Furniture and equipment	10 Years
Vehicles	10 Years
Water and Sewer Systems	10 to 40 Years
Springs	40 Years

Equity Classifications

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

Invested in capital assets – consists of capital assets net of accumulated depreciation and related debt

Restricted net assets – consists of funds whose use by the Town has been limited by creditors to a specific time period or purpose

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

The Town's policy regarding an expense for which both restricted and unrestricted net assets are available is to first apply the restricted resources. Unrestricted resources are used only to the extent that restricted resources do not cover the incurred expenditure.

In the governmental fund financial statements, equity is to be classified as net assets and displayed in each of the applicable five components as prescribed by GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*:

Non-spendable – reflects amounts that are not in spendable form (e.g. inventory, prepaid items, ect.)

Restricted – reflects amounts that are restricted to specific purposes, pursuant to restrictions imposed externally by creditors, grantors, contributors, or laws or regulations of other governments

Committed – reflects amounts subject to internal constraints self-imposed by formal action of the Burgess and Commissioners of Middletown (i.e. awarded contracts, passed ordinances, ect.)

Assigned – reflects amounts that the Town intends to use for specific purposes (e.g. motions passed by the Burgess and Commissioners)

Unassigned – reflects the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned for specific purposes

Cash Equivalents

For purposes of the statement of cash flows, the Town considers all highly liquid investments, including money market funds, with a maturity of three months or less when purchased to be cash equivalents.

Retirement Plan

Eligible Burgess and Commissioners of Middletown employees may participate in the State Retirement & Pension System of Maryland. The Town's policy is to fund pension costs accrued.

Risk and Uncertainties

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Town maintains its cash balances in several financial institutions, which at times may exceed federally insured limits. The financial institutions in which the excess funds are held have pledged securities as collateral for the deposits. Accordingly, management does not believe the Town is exposed to any significant credit risk for cash deposits. The Town also maintains funds in a money market account with the Maryland Local Government Investment Pool (MLGIP). These accounts are not insured by the FDIC. However, the MLGIP has pledged securities as collateral for the money market funds.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accrued compensated absences and the liabilities for sludge removal and inflow and infiltration costs.

Income Tax Status

The Town is a tax-exempt governmental entity and, accordingly, is exempt from filing Federal and State income tax returns. Therefore, no provision for income taxes has been made in these financial statements.

Note 2 – Stewardship, Compliance, and Accountability

The Town charter requires the Burgess and Commissioners to adopt an annual budget for the General Fund and the Enterprise Fund. The General Fund budget is prepared on the cash basis. The Enterprise Fund budget is prepared on the cash basis except that tap and improvement fees, certain capital expenses and non-operating income and expense items are not considered. Revenues are budgeted in the year receipt is expected; and expenditures/expenses are budgeted in the year that the applicable purchase orders are expected to be issued. No supplemental appropriations or authorized budget amendments were made during the year. Appropriations for annually budgeted funds lapse at fiscal year-end.

Note 3 – Assets

Cash and Cash Equivalents

As of June 30, 2012 the Town had checking and savings accounts in various financial institutions, of which, only a portion of the deposits were covered by insurance maintained by the Federal Deposit Insurance Corporation. The banks in which the excess funds are held have pledged securities as collateral for the deposits.

In addition, the Town maintains uninsured money market funds with the Maryland Local Government Investment Pool (MLGIP), in the amount of \$205,000 as of June 30, 2012.

Investments

The Town's investment policy allows investments only in U.S. Treasury obligations, U.S. Government agency securities, repurchase agreements secured by either of these; MLGIP; and interest bearing accounts in any bank and shares in an investment company or investment trust as provided for under Maryland law.

Property Taxes Receivable

Property taxes receivable are recorded in the General Fund. At fiscal year-end, the receivables represent delinquent taxes. Property taxes are billed, collected and remitted to the Town by the county government. Taxes are levied annually on July 1 and are due by September 30. Delinquent properties are advertised for public tax sale in May.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	2011	Additions	Reductions	2012
<u>Governmental Activities</u>				
Non-depreciable assets	\$ 3,741,376	\$ 401,975	\$ 45,163	\$ 4,098,188
Depreciable				
Buildings and parking lots	1,258,684	55,053	4,542	1,309,195
Machinery & equipment	677,616	9,986	36,909	650,693
Parks and recreation	516,308	32,741	291	548,758
Vehicles	399,911	-	-	399,911
Streets	2,510,343	87,290	-	2,597,633
Total	\$ 9,104,238	\$ 587,045	\$ 86,905	\$ 9,604,378
Less accumulated depreciation				
Buildings	\$ 398,431	\$ 36,687	\$ 3,705	\$ 431,413
Machinery & equipment	394,738	45,320	36,909	403,149
Parks and recreation	119,900	19,718	320	139,298
Vehicles	303,937	18,555	-	322,492
Streets	1,236,454	133,098	-	1,369,552
Total	\$ 2,453,460	\$ 253,378	\$ 40,934	\$ 2,665,904
Net book value	\$ 6,650,778			\$ 6,938,474
<u>Business-type Activities</u>				
Non-depreciable assets	\$ 441,752	\$ -	\$ -	\$ 441,752
Depreciable				
Sewer distribution	7,257,141	6,117	-	7,263,258
Water distribution	6,710,370	203,483	96,100	6,817,753
Springs	17,387	-	-	17,387
Equipment	54,420	5,955	11,516	48,859
Vehicles	166,539	-	8,522	158,017
Buildings	25,787	-	-	25,787
Total	\$ 14,673,396	\$ 215,555	\$ 116,138	\$ 14,772,813
Less accumulated depreciation				
Sewer distribution	\$ 3,073,475	\$ 187,147	\$ -	\$ 3,260,622
Water distribution	2,445,712	171,256	-	2,616,968
Springs	5,265	434	-	5,699
Equipment	42,575	4,362	11,516	35,421
Vehicles	104,035	8,104	8,522	103,617
Buildings	23,949	1,023	-	24,972
Total	\$ 5,695,011	\$ 372,326	\$ 20,038	\$ 6,047,299
Net book value	\$ 8,978,385			\$ 8,725,514

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Depreciation expense, excluding amortization, was charged to the functions of the primary government as follows:

Governmental Activities

General government	\$ 100,561
Parks and recreation	19,719
Streets and alleys	133,098
	<u>\$ 253,378</u>

Business Type Activities

Water and sewer utilities	<u>\$ 372,326</u>
---------------------------	-------------------

Note 4 – Long-term Debt

The Town's long-term debt as of June 30, 2012 consisted of the following:

	<u>Balance</u>
<u>Governmental Activities</u>	
\$1,400,000 mortgage payable to a private lender. The original mortgage payable was refinanced in July 2012 when the outstanding balance was \$837,053. Under the terms of the refinanced debt agreement, the mortgage is payable in monthly installments of \$10,296 including principal and interest at the fixed rate of 3%; due in full no later than February, 2020; and collateralized by park and recreation land.	\$ 844,605
\$250,000 Local Government Infrastructure Bonds from Maryland Department of Housing and Community Development payable in semi-annual installments of principal, ranging from \$8,500 in year one to \$17,500 in the final year, plus interest at variable rates ranging from 3.65% to 4.40%; and collateralized by all local government payments, including money, securities, bank deposits, any other investments and receivables.	<u>194,000</u>
Total Governmental Activities	<u>1,038,605</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Business-type Activities

<p>\$347,885 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development. The original bonds were refinanced in 2010 when the outstanding balance was \$347,885. Under the terms of the refinanced debt agreement, the bonds are payable in semi-annual installments ranging from \$23,500 to \$32,000, including principal and interest at the rate of .75% increasing to 3.69% with final payment due in May 2023; and collateralized by all revenues, all money held in investments, and all receivables.</p>	300,000
<p>\$490,000 Maryland Water Quality Financing Administration payable in semi-annual installments, including principal and interest at the rate of 4.395%, and an administrative fee of \$1,858 due annually; with final payment is due in February 2013 and collateralized by the full faith and credit and unlimited taxing power of the Town.</p>	36,469
<p>\$1,400,000 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development. The original bonds were refinanced in 2007 when the outstanding balance was \$912,800. Under the terms of the refinanced debt agreement, the bonds are payable in semi-annual installments ranging from \$95,842 to \$109,402, including principal and interest at the rate of 3.85% increasing to 4.1% in May 2016 with final payment due in May 2017; and collateralized by all revenues, all money held in investments, and all receivables.</p>	496,350
<p>\$3,700,000 Maryland Water Quality Bond Series 1999. The loan agreement was amended in January 2005 when the outstanding principal balance was \$2.89 million. Under the terms of the amendment, the loan is payable in annual installments of \$230,830 in February, including principal and interest at the rate of 2.35%, and annual payments in August including interest and a fixed administrative fee of \$10,435 with final payment due in February 2020; and collateralized by the full faith and credit and unlimited taxing power of the Town.</p>	1,665,716
<p>Total Business-type Activities</p>	2,498,535
<p>Total Long-term Debt</p>	\$ 3,537,140

The aggregate annual payments on the foregoing long-term debt for the years ending June 30 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>General Obligation</u>		<u>Revenue Bonds and Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 109,423	\$ 33,595	\$ 344,805	\$ 69,091
2014	113,582	28,725	315,440	59,102
2015	117,202	25,148	324,450	50,330
2016	120,917	21,456	333,819	41,236
2017	124,730	17,645	343,349	31,620
2018-2022	386,251	36,625	804,672	52,103
2023-2026	66,500	7,334	32,000	1,110
	<u>\$ 1,038,605</u>	<u>\$ 170,528</u>	<u>\$ 2,498,535</u>	<u>\$ 304,592</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

The following is a summary of changes in long-term debt for the year ended June 30, 2012.

Description	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012	Balance Due Within One Year
Governmental Activities					
Mortgage Payable	\$ 932,821	\$ -	\$ 88,216	\$ 844,605	\$ 98,923
Infrastructure Series A Bond	204,000	-	10,000	194,000	10,500
Total Governmental Activities	\$1,136,821	\$ -	\$ 98,216	\$1,038,605	\$ 109,423
Business-type Activities					
Infrastructure Series A Bond	\$ 324,385	\$ -	\$ 24,385	\$ 300,000	\$ 24,000
Maryland Water Quality Financing Administration Loan	72,359	-	35,890	36,469	36,469
Infrastructure Series A Bond	585,800	-	89,450	496,350	92,650
Maryland Water Quality Bond	1,853,000	-	187,284	1,665,716	191,686
Total Business-type Activities	2,835,544	-	337,009	2,498,535	344,805
Total Long-term Debt	\$3,972,365	\$ -	\$ 435,225	\$3,537,140	\$ 454,228

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2012.

Note 5 – Line of Credit

The Town has a \$2,000,000 line of credit bearing interest at LIBOR plus 2.35%. The Town did not borrow any additional funds from the line of credit and made payments of \$20,000 during the year ended June 30, 2012. The outstanding balance at year end was \$436,862. The entire outstanding principal balance due, all accrued and unpaid interest thereon, are due and payable, if not sooner paid, on the 5th day of December 2013.

Note 6 – Compensated Absences

The Town's personnel policies allow employees to accumulate a limited amount of earned but unused leave, which can be used in a subsequent period or will be paid to employees upon separation from the Town. In the government-wide financial statements and proprietary fund financial statements, all annual, holiday, and compensatory leave are accrued when earned.

Note 7 – Retirement Plan

The Town contributes to the State Retirement and Pension System of Maryland (the Plan), a cost sharing multiple-employer public employee retirement system administered by the State Retirement and Pension System of Maryland. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board of Trustees of the State Retirement and Pension System of Maryland has the authority to establish and amend benefit provisions. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201-2363.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Individual plan members are not required to contribute to the plan; however, the Town is required to make annual contributions equal to the actuarially-determined annual pension cost. Such contribution requirements are established, and may be amended, by the Plan's Board of Trustees. The actuarially-determined contribution rate for the year ended June 30, 2012 was 10.46% of covered payroll. The Town's contribution to the plan was \$73,446 for the year ended June 30, 2012.

Note 8 – Commitments & Contingencies

The Town leases a copier under an operating lease expiring in 2015. Annual lease payments under the leases approximate \$6,300 plus the costs of paper.

The Town has an obligation to perform sludge removal from its waste treatment facilities. Management believes it is less efficient and, therefore, more costly to perform this activity on an annual basis; therefore, the sludge removal process is performed at extended intervals ranging from three to as many as twelve years. Because this process results from the annual sludge build-up and its removal is a mandatory service for the general population of the Town, an annual charge to income is recognized for the prorated portion of the total estimated liability at the time of removal.

The Town has a six year inflow & infiltration program to address rain run-off that enters the sanitary sewer system and ground water that enters the system. The Town has an engineering study conducted approximately every five years to determine the locations where significant inflow and infiltration has occurred. The Town then develops construction contracts to address such areas. Inflow and infiltration occurs over the entire system, but the engineering report determines where the construction should be conducted to achieve maximum cost effectiveness. Management has estimated that the future costs for maintenance of the sanitary sewer system will be approximately \$375,000 and, therefore, has recognized an accrued liability of \$75,000 in 2012 representing one-fifth of the total estimated liability.

Note 9 – Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2012 through October 31, 2012, the date these financial statements were available to be issued. Based on the definitions and requirements of accounting principles generally accepted in the United States of America, management has not identified any events that have occurred subsequent to June 30, 2012 through October 31, 2012, that require recognition or disclosure in the financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate	\$ 1,210,751	\$ 1,247,489	\$ 36,738
Public utility	8,369	7,876	(493)
Tangible personal property	27,000	28,812	1,812
Franchise (Cable)	35,521	38,623	3,102
Penalties and interest	10,000	10,328	328
	<u>1,291,641</u>	<u>1,333,128</u>	<u>41,487</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	33,393	35,977	2,584
Highway	58,866	59,110	244
Income	584,141	725,954	141,813
Police protection	15,126	15,126	-
Miscellaneous grants	2,500	-	(2,500)
Other State grants	350,474	220,694	(129,780)
	<u>1,044,500</u>	<u>1,056,861</u>	<u>12,361</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	296,884	296,884	-
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	1,950	1,970	20
Traders licenses	4,000	4,941	941
	<u>5,950</u>	<u>6,911</u>	<u>961</u>
<u>SERVICE CHARGES</u>			
Planning and zoning	8,000	8,956	956
<u>MISCELLANEOUS</u>			
Interest income	-	1,992	1,992
Pavilion fees	1,900	1,990	90
Miscellaneous income	2,500	4,106	1,606
	<u>4,400</u>	<u>8,088</u>	<u>3,688</u>
 TOTAL REVENUES	 <u>\$ 2,651,375</u>	 <u>\$ 2,710,828</u>	 <u>\$ 59,453</u>

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 2,500	\$ 750	\$ (1,750)
Communications	-	1,243	1,243
Conventions and meetings	9,300	8,182	(1,118)
Dues and subscriptions	7,300	7,238	(62)
Office supplies and expense	3,200	3,631	431
Salaries - commissioners	12,000	12,000	-
	<u>34,300</u>	<u>33,044</u>	<u>(1,256)</u>
<u>EXECUTIVE</u>			
Salary - burgess	6,000	6,000	-
	<u>6,000</u>	<u>6,000</u>	<u>-</u>
<u>ELECTION</u>			
Clerk fees	1,000	430	570
Other administrative expenses	-	235	(235)
	<u>1,000</u>	<u>665</u>	<u>335</u>
<u>PROFESSIONAL SERVICES</u>			
Audit fee	12,000	12,000	-
Legal - development	5,000	190	(4,810)
Legal - ordinance	5,000	4,693	(307)
	<u>22,000</u>	<u>16,883</u>	<u>(5,117)</u>
<u>PLANNING AND ZONING</u>			
Salaries	44,952	35,429	(9,523)
Zoning expenses	3,000	9,136	6,136
	<u>47,952</u>	<u>44,565</u>	<u>(3,387)</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	55,200	59,989	4,789
Administrative salaries	148,551	163,182	14,631
Amortization	-	342	342
Communications	7,800	6,907	(893)
Computer expense	11,500	21,935	10,435
Copier lease	-	9,063	9,063
Dues and subscriptions	100	145	45
Meetings and conventions	100	35	(65)
Office supplies and expense	17,000	10,619	(6,381)
Office maintenance and utilities	42,110	41,773	(337)
Postage and printing	2,500	66	(2,434)
Professional services	5,000	3,600	(1,400)
	<u>\$ 289,861</u>	<u>\$ 317,656</u>	<u>\$ 27,795</u>

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Director salary	\$ 86,731	\$ 81,435	\$ (5,296)
Maintenance salaries	37,217	28,964	(8,253)
Maintenance capital outlay	22,800	5,049	(17,751)
Vehicle capital outlay	64,000	-	(64,000)
Communications	4,620	5,906	1,286
Dues and subscriptions	500	647	147
Maintenance and repairs	16,750	23,776	7,026
Supplies and expense	7,000	8,133	1,133
Tools and equipment	2,000	3,698	1,698
	<u>241,618</u>	<u>157,608</u>	<u>(84,010)</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	15,000	15,000	-
School safety guard and supplies	14,130	14,113	(17)
Resident trooper program	361,929	337,106	(24,823)
	<u>391,059</u>	<u>366,219</u>	<u>(24,840)</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Collection and disposal fees	280,795	224,627	(56,168)
Eco-bags, yard waste, and recycling	-	47,381	47,381
	<u>280,795</u>	<u>272,008</u>	<u>(8,787)</u>
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	433,836	320,299	(113,537)
Rensburg Park interest	44,638	44,638	-
Rensburg Park loan payments	88,216	88,216	-
Park salaries	31,265	40,088	8,823
Park electricity	3,300	1,790	(1,510)
Park repairs and maintenance	27,800	19,642	(8,158)
Park mowing	35,400	19,715	(15,685)
	<u>664,455</u>	<u>534,388</u>	<u>(130,067)</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	1,217,752	158,610	(1,059,142)
East Green Street interest	8,675	8,596	(79)
East Green Street loan payments	10,000	10,000	-
Maintenance salaries	119,460	66,957	(52,503)
Equipment operations and repairs	14,400	4,900	(9,500)
Mowing	34,544	25,373	(9,171)
Repairs and resurfacing	54,500	93,132	38,632
Signs	3,000	3,042	42
Street lighting	160,000	154,811	(5,189)
Snow removal	49,550	12,658	(36,892)
Storm water management	2,500	2,335	(165)
Truck repair and operation	24,300	19,557	(4,743)
Case loader - principal and interest	22,960	22,196	(764)
	<u>\$ 1,721,641</u>	<u>\$ 582,167</u>	<u>\$ (1,139,474)</u>

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 24,424	\$ 20,980	\$ (3,444)
Community expenses	-	2,312	2,312
Town contribution	7,500	7,500	-
	<u>31,924</u>	<u>30,792</u>	<u>(1,132)</u>
<u>MISCELLANEOUS</u>			
Community events	40,700	55,489	14,789
Donations	-	600	600
Insurance - property	9,000	8,804	(196)
Insurance - employee	99,457	91,035	(8,422)
Insurance - workers compensation	-	12,197	12,197
Miscellaneous	3,500	4,471	971
Payroll taxes	42,119	36,658	(5,461)
Pension	53,012	53,067	55
Real estate taxes	712	712	-
Travel	2,500	3,574	1,074
Web page and directory	2,000	3,373	1,373
	<u>253,000</u>	<u>269,980</u>	<u>16,980</u>
TOTAL EXPENDITURES	<u>3,985,605</u>	<u>2,631,975</u>	<u>(1,352,960)</u>
EXCESS OF REVENUE OVER EXPENDITURES	(1,334,230)	78,853	1,413,083
FUND BALANCE AT BEGINNING OF YEAR	<u>2,028,695</u>	<u>2,028,695</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 694,465</u>	<u>\$ 2,107,548</u>	<u>\$ 1,413,083</u>

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2012

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 535,611	\$ 507,375	\$ (28,236)
Sewer revenue	535,610	506,864	(28,746)
Penalties and interest	16,000	14,389	(1,611)
TOTAL OPERATING REVENUES	1,087,221	1,028,628	(58,593)
<u>ADMINISTRATIVE EXPENSES</u>			
Amortization	-	4,783	4,783
Depreciation	-	372,326	372,326
Salaries - office	38,726	36,078	(2,648)
Advertising	500	997	497
Communications	8,000	6,785	(1,215)
Dues and subscriptions	250	650	400
Insurance - property	12,000	11,347	(653)
Insurance - worker's compensation	11,144	13,081	1,937
Insurance - health	41,326	46,026	4,700
Meetings and seminars	100	496	396
Office supplies and expense	8,600	12,050	3,450
Payroll taxes	17,113	20,506	3,393
Pension	19,676	20,379	703
Postage	9,000	8,590	(410)
Professional services - legal	500	6,226	5,726
Real estate taxes	300	292	(8)
Travel	100	202	102
Uniforms	2,700	3,257	557
Rain barrel/educational programs	3,000	4,691	1,691
TOTAL ADMINISTRATIVE EXPENSES	173,035	568,762	395,727
<u>VEHICLES & EQUIPMENT</u>			
1999 Truck	3,000	4,144	(1,144)
2001 Truck	3,000	3,321	(321)
2008 Truck	3,000	2,073	927
Misc. Equipment	4,500	877	3,623
Bobcat Mini-Excavator	-	573	(573)
Case Backhoe	2,500	355	2,145
TOTAL VEHICLES & EQUIPMENT EXPENSES	16,000	11,343	4,657
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	97,654	108,348	10,694
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	500	477	(23)
Repairs and maintenance	34,700	61,018	26,318
Supplies	1,000	3,843	2,843
Tools and equipment	1,000	2,058	1,058
Water line break repairs	10,000	17,697	7,697
TOTAL WATER DISTRIBUTION SYSTEM EXPENSES	\$ 47,200	\$ 85,093	\$ 37,893

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2012

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER SOURCES AND TREATMENT</u>			
Brookridge water plant	\$ 2,150	\$ 8,814	\$ 6,664
Reservoir	26,378	22,426	(3,952)
Water plant & booster station	52,380	50,115	(2,265)
Water tower	9,928	4,825	(5,103)
TOTAL WATER PLANT SYSTEM	90,836	86,180	(4,656)
TOTAL WATER SYSTEM EXPENSES	235,690	279,621	43,931
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	96,199	109,381	13,182
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	12,250	15,418	3,168
Brookridge South pumping station	8,000	6,545	(1,455)
Foxfield pumping station	5,460	5,769	309
Sanitary sewer lines and manholes	8,500	15,400	6,900
Inflow and infiltration	75,000	75,000	-
TOTAL SEWER COLLECTION SYSTEM EXPENSES	109,210	118,132	8,922
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	36,000	42,961	6,961
Electric	34,320	36,746	2,426
Mowing	4,371	3,525	(846)
Repairs and maintenance	14,150	14,700	550
Sludge hauling	64,000	66,292	2,292
Supplies	5,000	6,502	1,502
Testing and analysis	15,000	20,300	5,300
Tools and equipment	6,700	1,684	(5,016)
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES	\$ 179,541	\$ 192,710	\$ 13,169

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2012

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 40,500	51,972	\$ 11,472
Electric	20,000	18,582	(1,418)
Mowing	2,759	2,225	(534)
Repairs and maintenance	7,000	5,202	(1,798)
Sludge hauling	25,000	6,358	(18,642)
Supplies	750	678	(72)
Testing and analysis	5,500	8,958	3,458
Tools and equipment	2,700	391	(2,309)
	<u>104,209</u>	<u>94,366</u>	<u>(9,843)</u>
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES	<u>104,209</u>	<u>94,366</u>	<u>(9,843)</u>
TOTAL SEWER SYSTEM EXPENSES	<u>489,159</u>	<u>514,589</u>	<u>25,430</u>
TOTAL OPERATING EXPENSES	<u>913,884</u>	<u>1,374,315</u>	<u>465,088</u>
OPERATING INCOME (LOSS)	<u>173,337</u>	<u>(345,687)</u>	<u>(523,681)</u>
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	131,600	134,500	2,900
Connection fees	83,000	105,000	22,000
Improvement fees	83,000	45,000	(38,000)
Capital improvement fee	107,400	107,210	(190)
Water tower & land leases	151,538	151,516	(22)
Miscellaneous income	-	8,122	8,122
Capital contributions from developers	-	5,800	5,800
Interest income	-	3	3
Interest expense	(77,477)	(104,588)	(27,111)
	<u>479,061</u>	<u>452,563</u>	<u>(26,498)</u>
TOTAL OTHER INCOME (EXPENSE)	<u>479,061</u>	<u>452,563</u>	<u>(26,498)</u>
NET INCOME (LOSS)	652,398	106,876	(550,179)
NET ASSETS AT BEGINNING OF YEAR	<u>5,592,439</u>	<u>5,592,439</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,244,837</u>	<u>\$ 5,699,315</u>	<u>\$ (550,179)</u>

* The budget was not amended during fiscal year 2012, therefore, the budget column shown is the original and final budget.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Burgess and Commissioners of Middletown
Middletown, Maryland

We have audited the basic financial statements of **The Burgess and Commissioners of Middletown (“the Town”)** as of and for the year ended June 30, 2012 and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Burgess, the Commissioners, and federal, state, and local awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Albright Crumbacker Moul & Itell LLC

Hagerstown, Maryland
October 31, 2012