



# BURGESS AND COMMISSIONERS OF MIDDLETOWN



FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

BURGESS AND COMMISSIONERS OF MIDDLETOWN

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## **Independent Auditor's Report**

### **The Burgess and Commissioners of Middletown**

Middletown, Maryland

We have audited the accompanying financial statements of the governmental activities and the business-type activities of **The Burgess and Commissioners of Middletown (“the Town”)** as of June 30, 2011 and for the year then ended, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the Town as of June 30, 2011 and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2011 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 read in conjunction with this report in considering the results of our audits.

The Town adopted Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ended June 30, 2011. The application of GASB 54 significantly alters the categories and terminology used to describe the components of the governmental fund balance. These changes are intended to increase the transparency of the financial statements, and improve the usefulness by establishing new fund balance classifications. GASB 54 implements a five-tier fund balance classification hierarchy that is intended to clarify the extent to which the Town is bound by spending constraints imposed on the use of its resources. Certain classifications do not apply to the Town's fund balance.

The Management's Discussion and Analysis and budgetary comparison information presented on pages 2-7 and pages 27-33, 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.

*Albright Crumbacker Moul & Itell, LLC*

Hagerstown, Maryland

November 18, 2011

**Town of Middletown**  
**Management's Discussion and Analysis**  
**June 30, 2011**

Within this section of the Town of Middletown annual financial report, Management provides an overall review of the town's financial activities for the fiscal year ended June 30, 2011. 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 \$13,113,286 (net assets) for the fiscal year ending June 30, 2011.
- Total net assets are comprised of the following:
  - (1) Invested in capital assets of \$11,178,132 include property and equipment, net of accumulated depreciation and net of outstanding debt (\$4,451,032) including the line of credit related to the purchase or construction of capital assets.
  - (2) Unrestricted net assets of \$1,935,154 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 \$2,028,695 this fiscal year. This compares to the prior year ending fund balance of \$1,827,626 reflecting an increase of \$201,069.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted fund balance of (\$93,541), a decrease of \$134,790 over 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, storm-water drainage, fairgrounds and parking. 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. As disclosed in note 1 of the accompanying financial statements, the Town adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"), for the fiscal year ended June 30, 2011. GASB 54 is intended to enhance the usefulness of the fund balance information by providing greater detail regarding the governmental fund's net assets.

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 presented as Required Supplementary Information 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 \$13,113,286. This is a \$682,111 increase over last year's net assets of \$12,431,175. The following table provides a summary of the Town's net assets at June 30, 2011 and 2010:

**Table 1**  
**Town of Middletown**  
**Fiscal Year Ended June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Totals		Amount Change	% Change
	2011	2010	2011	2010	2011	2010		
<b>Assets:</b>								
Current Assets	\$2,369,066	\$2,354,807	\$ 739,382	\$ 778,811	\$ 3,108,448	\$ 3,133,618	\$ (25,170)	(0.8)
Capital Assets	6,650,779	6,334,963	8,978,385	9,146,180	15,629,164	15,481,143	148,021	1.0
Other Assets	5,038	5,380	32,660	31,112	37,698	36,492	1,206	3.3
Total Assets	9,024,883	8,695,150	9,750,427	9,956,103	18,775,310	18,651,253	124,057	0.7
<b>Liabilities:</b>								
Current & Other Liabilities	465,431	647,190	1,659,454	1,582,352	2,124,885	2,229,542	(104,657)	(4.7)
Long-Term Liabilities	1,038,605	1,158,627	2,498,534	2,831,909	3,537,139	3,990,536	(453,397)	(11.4)
Total Liabilities	1,504,036	1,805,817	4,157,988	4,414,261	5,662,024	6,220,078	(558,054)	(9.0)
Net assets:								
Invested in capital assets, net of related debt	5,492,152	5,061,707	5,685,980	5,500,593	11,178,132	10,562,300	615,832	5.8
Unrestricted	2,028,695	1,827,626	(93,541)	41,249	1,935,154	1,868,875	66,279	3.5
Total Net Assets	\$7,520,847	\$6,889,333	\$5,592,439	\$5,541,842	\$13,113,286	\$12,431,175	\$682,111	5.5

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 \$631,514 or 92.6% 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 \$468,236 or 65.4%.

The Town's revenues from governmental activities totaled \$2,763,019 for the fiscal year ended June 30, 2011. Revenue from taxes represented 83.7 % of total revenue. The major source of revenue for the Town was property taxes of \$1,251,696 comprised of real estate and personal property. State shared taxes of \$730,508 which includes state income and highway user taxes.

The Town's expenses from governmental activities totals \$2,131,505 for the fiscal year ended June 30, 2011. Expenses of General government were the largest expense at \$787,005 or 36.9% and public services the second largest expense at \$611,683 or 28.7%.

**Table 2**  
**Changes in the Town of Middletown's Net Assets**  
**Fiscal Year Ended June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Totals		Amount	%
	2011	2010	2011	2010	2011	2010	Change	Change
<b>Revenues</b>								
General Revenues								
Property Taxes	\$ 1,251,696	\$ 1,219,943	\$ -	\$ -	\$ 1,251,696	\$ 1,219,943	\$ 31,753	2.6
Income Taxes	711,087	598,651	-	-	711,087	598,651	112,436	18.8
Highway Taxes	19,421	26,977	-	-	19,421	26,977	(7,556)	(28.0)
Other Taxes	330,351	338,046	-	-	330,351	338,046	(7,695)	(2.3)
Other Income	40,847	49,510	352,148	519,278	392,995	568,788	(175,793)	(30.9)
Investment Income	4,828	5,273	5	184	4,833	5,457	(624)	(11.4)
Program Revenues								
Charges for Services	21,510	32,315	1,132,496	1,029,321	1,154,006	1,061,636	92,370	8.7
Operating Grants	15,126	49,041	-	-	15,126	49,041	(33,915)	(69.2)
Capital Grants	368,153	342,195	-	-	368,153	342,195	25,958	7.6
<b>Total Revenues</b>	<b>2,763,019</b>	<b>2,661,951</b>	<b>1,484,649</b>	<b>1,548,783</b>	<b>4,247,668</b>	<b>4,210,734</b>	<b>36,934</b>	<b>0.9</b>
<b>Expenditures</b>								
General Government	787,005	756,767	-	-	787,005	756,767	30,239	4.0
Public Safety	358,744	377,885	-	-	358,744	377,885	(19,141)	(5.1)
Parks and Recreation	69,530	62,275	-	-	69,530	62,275	7,255	11.6
Public Services	611,683	710,341	-	-	611,683	710,341	(98,658)	(13.9)
Depreciation and Amortization	244,447	223,971	373,919	351,086	618,366	575,057	43,308	
Interest Expense	60,096	62,476	115,431	122,711	175,527	185,187	(9,660)	(5.2)
Water/Sewer Utilities	-	-	944,702	827,585	944,702	827,585	117,117	14.2
<b>Total Expenditures</b>	<b>2,131,505</b>	<b>2,193,715</b>	<b>1,434,052</b>	<b>1,301,382</b>	<b>3,565,557</b>	<b>3,495,097</b>	<b>70,460</b>	<b>2.0</b>
Change in Net Assets	631,514	468,236	50,597	247,401	682,112	715,637	(33,526)	(4.7)
Beginning Net Assets	6,889,333	6,421,097	5,541,842	5,294,441	12,431,175	11,715,538	715,637	6.1
<b>Total Net Assets</b>	<b>\$7,520,847</b>	<b>\$6,889,333</b>	<b>\$5,592,439</b>	<b>\$5,541,842</b>	<b>\$13,113,286</b>	<b>\$12,431,175</b>	<b>\$682,111</b>	<b>5.5</b>

### **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 \$50,597 for the fiscal year ended June 30, 2011. The major source of revenue is utility service charges for water and sewer which was \$986,429 representing 66.4% 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, 2011, the Town's governmental fund increased by \$201,069 to a balance of \$2,028,695. This amount constitutes the unrestricted fund balance, which is generally available for spending at the Town's discretion. This amount represents 95.2% 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, 2011 reported a balance of (\$93,541).

**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, 2011 was \$15,629,164, 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 transactions during the fiscal year included the following:

- Continued Construction of Remsberg Park Infrastructure and Playing Fields
- Purchase of Land to Enhance the Town's Walking Trails
- Mainstreet Banner Installation
- Memorial Park Ballfield and Playground Improvements
- Computer Hardware and Software Upgrades
- Purchase of a Used Dump Truck and Mini-Excavator
- Waterline Extension on Locust Blvd
- Sanitary Sewer Line Extension on Boileau Drive
- Complete Construction of Brookridge South's Wellhouse

**Capital Assets by Activity**

The Town's investment in Capital Assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2011 was \$6,650,779 and \$8,978,385, respectively. The increase in net investment for governmental was 5.0%; whereas, the business type activities decreased 10.0%. The overall decrease was 3.5% for the Town as a whole.

**Table 3**  
**Town of Middletown's Capital Assets (net of depreciation)**  
**Fiscal Year Ended June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Totals		Amount Change	% Change
	2011	2010	2011	2010	2011	2010		
<b>Non-Depreciable Assets:</b>								
Land	\$ 3,008,508	\$ 3,008,508	\$ 403,196	\$ 403,196	\$ 3,411,704	\$ 3,411,704	\$ -	-
Construction In Progress	732,868	415,669	38,556	731,530	771,424	1,147,199	(375,775)	(32.8)
<b>Depreciable Assets:</b>								
Buildings and parking lots	860,253	881,892	1,838	2,884	862,091	884,776	(22,685)	(2.6)
Machinery & Equipment	282,879	300,825	11,845	5,767	294,724	306,592	(11,868)	(3.9)
Parks & Recreation	396,408	414,528	-	-	396,408	414,528	(18,120)	(4.4)
Vehicles	95,974	61,640	62,504	38,832	158,478	100,472	58,006	57.7
Streets	1,273,889	1,251,901	-	-	1,273,889	1,251,901	21,988	1.8
Sewer Distribution	-	-	4,183,666	4,317,815	4,183,666	4,317,815	(134,149)	(3.1)
Water Distribution	-	-	4,264,658	4,352,344	4,264,658	4,352,344	(87,686)	(2.0)
Springs	-	-	12,122	12,557	12,122	12,557	(435)	(3.5)
<b>Total</b>	<b>\$6,650,779</b>	<b>\$6,334,963</b>	<b>\$8,978,385</b>	<b>\$9,864,925</b>	<b>\$15,629,164</b>	<b>\$16,199,888</b>	<b>\$(570,724)</b>	<b>(3.5)</b>

## **Long-Term Debt**

As disclosed in the following table, total long-term debt, excluding the capital lease obligations and line of credit, was \$3,972,365 as of June 30, 2011, representing repayments of \$417,101 during the fiscal year ended June 30, 2011. 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, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Totals		Amount Change	% Change
	2011	2010	2011	2010	2011	2010		
Mortgage Payable - Park and Recreation Land	\$ 932,821	\$ 1,016,743			\$ 932,821	\$ 1,016,743	\$ (83,922)	(8.3)
Infrastructure Bonds - Street Expansion	204,000	214,000			204,000	214,000	(10,000)	(4.7)
Infrastructure Bonds - Water Distribution			324,385	344,250	324,385	344,250	(19,865)	(5.8)
Infrastructure Bonds - Water Distribution			585,800	671,750	585,800	671,750	(85,950)	(12.8)
Water Quality Loan - I & I			72,359	106,739	72,359	106,739	(34,380)	(32.2)
Water Quality Loan - WWTP			1,853,000	2,035,984	1,853,000	2,035,984	(182,984)	(9.0)
<b>Total</b>	<b>\$1,136,821</b>	<b>\$1,230,743</b>	<b>\$2,835,544</b>	<b>\$3,158,723</b>	<b>\$3,972,365</b>	<b>\$4,389,466</b>	<b>\$(417,101)</b>	<b>(9.5)</b>

## **Economic Environment**

During 2011, the Maryland Department of the Environment (MDE) terminated the Consent Agreement between the Town of Middletown and MDE. The Consent Agreement, which was executed in 2004, provided the framework to ensure that the Town has sufficient water supply capacity prior to selling water taps. MDE affirms that all of the requirements of the Consent Agreement have been met and the Consent Agreement has been rescinded.

## **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 Financial Officer, Town of Middletown, 31 West Main Street, Middletown, Maryland 21769.

The Burgess and Commissioners of Middletown

STATEMENT OF NET ASSETS  
June 30, 2011

<u>ASSETS</u>	PRIMARY GOVERNMENT		
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	\$ 2,018,313	\$ 409,607	\$ 2,427,920
Cash held in escrow	159,426	-	159,426
Receivables:			
Taxes	10,272	-	10,272
Customers accounts	-	316,547	316,547
Other	40,849	-	40,849
Due from other governments	98,530	-	98,530
Other assets	41,676	13,228	54,904
<b>TOTAL CURRENT ASSETS</b>	<b>2,369,066</b>	<b>739,382</b>	<b>3,108,448</b>
<u>NON-CURRENT ASSETS</u>			
Property, plant, and equipment, net of accumulated depreciation	5,917,911	8,961,387	14,879,298
Construction in progress	732,868	16,998	749,866
Bond and loan costs, net of amortization	5,038	32,660	37,698
<b>TOTAL NONCURRENT ASSETS</b>	<b>6,655,817</b>	<b>9,011,045</b>	<b>15,666,862</b>
<b>TOTAL ASSETS</b>	<b>\$ 9,024,883</b>	<b>\$ 9,750,427</b>	<b>\$ 18,775,310</b>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>CURRENT LIABILITIES</u>			
Current maturities of long-term debt	\$ 98,216	\$ 337,010	\$ 435,226
Current portion of obligations under capital leases	21,805	-	21,805
Line of credit	-	456,862	456,862
Accounts payable	150,409	53,045	203,454
Bank overdraft	-	390,611	390,611
Accrued operating expenses	35,574	43,887	79,461
Other accrued liabilities	-	378,039	378,039
Developer escrow	159,427	-	159,427
<b>TOTAL CURRENT LIABILITIES</b>	<b>465,431</b>	<b>1,659,454</b>	<b>2,124,885</b>
<u>NON-CURRENT LIABILITIES</u>			
Bonds and notes payable	1,038,605	2,498,534	3,537,139
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,038,605</b>	<b>2,498,534</b>	<b>3,537,139</b>
<b>TOTAL LIABILITIES</b>	<b>1,504,036</b>	<b>4,157,988</b>	<b>5,662,024</b>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	5,492,152	5,685,980	11,178,132
Unrestricted	2,028,695	(93,541)	1,935,154
<b>TOTAL NET ASSETS</b>	<b>7,520,847</b>	<b>5,592,439</b>	<b>13,113,286</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,024,883</b>	<b>\$ 9,750,427</b>	<b>\$ 18,775,310</b>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES  
June 30, 2011

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		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary government:							
Governmental activities:							
General government	\$ 787,005	\$ 19,320	\$ -	\$ -	\$ (767,685)	\$ -	\$ (767,685)
Public safety	358,744	-	-	-	(358,744)	-	(358,744)
Parks and recreation	69,530	2,190	-	277,503	210,163	-	210,163
Public services	611,683	-	15,126	90,650	(505,907)	-	(505,907)
Depreciation and amortization	244,447	-	-	-	(244,447)	-	(244,447)
Interest	60,096	-	-	-	(60,096)	-	(60,096)
Total governmental activities	<u>2,131,505</u>	<u>21,510</u>	<u>15,126</u>	<u>368,153</u>	<u>(1,726,716)</u>	<u>-</u>	<u>(1,726,716)</u>
Business-type activities:							
Water and sewer utilities	1,434,051	1,132,496	-	-	-	(301,555)	(301,555)
Total business-type activities	<u>1,434,051</u>	<u>1,132,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(301,555)</u>	<u>(301,555)</u>
Total primary government	<u>\$ 3,565,556</u>	<u>\$ 1,154,006</u>	<u>\$ 15,126</u>	<u>\$ 368,153</u>	<u>\$ (1,726,716)</u>	<u>\$ (301,555)</u>	<u>\$ (2,028,271)</u>
General revenues:							
Taxes							
Property					\$ 1,251,696	\$ -	\$ 1,251,696
Income					711,087	-	711,087
Highway					19,421	-	19,421
Other					330,351	-	330,351
Other income					40,847	352,147	392,994
Interest income					4,828	5	4,833
Total general revenues					<u>2,358,230</u>	<u>352,152</u>	<u>2,710,382</u>
Change in net assets					631,514	50,597	682,111
Net assets - beginning of year					<u>6,889,333</u>	<u>5,541,842</u>	<u>12,431,175</u>
Net assets - end of year					<u>\$ 7,520,847</u>	<u>\$ 5,592,439</u>	<u>\$ 13,113,286</u>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2011

<u>ASSETS</u>	<u>2011</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,018,313
Cash held in escrow	159,427
Receivables:	
Taxes	10,272
Other	40,849
Due from other governments	98,530
Other assets	46,714
	46,714
TOTAL ASSETS	\$ 2,374,105
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts payable	\$ 150,409
Accrued operating expenses	35,574
Developer escrow	159,427
	159,427
TOTAL LIABILITIES	345,410
 <u>FUND BALANCE</u>	
Non-spendable	41,676
Committed	641,765
Assigned	73,988
Unassigned	1,271,266
	1,271,266
TOTAL FUND BALANCE	2,028,695
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,374,105

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF NET ASSETS  
June 30, 2011

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	<u>2011</u>
Fund Balances - total governmental funds	\$ 2,028,695
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	6,650,779
Long-term liabilities are not due and payable in 2011 and therefore are not reported in the governmental fund	<u>(1,158,627)</u>
Net Assets of Governmental Activities	<u><u>\$ 7,520,847</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
June 30, 2011

	2011
<b>REVENUES</b>	
Taxes:	
Local	\$ 1,251,696
State shared	730,508
County shared	330,351
Other	36,977
Grants:	
Capital	277,503
Operating	15,126
Other	92,142
Licenses and permits	6,287
Service charges	15,236
Interest income	4,828
Other revenues	2,365
Total Revenues	2,763,019
<b>EXPENDITURES</b>	
General government	791,204
Public safety	365,104
Parks and recreation	345,989
Public services	884,586
Debt service:	
Principal	114,629
Interest	60,096
Amortization	342
Total Expenditures	2,561,950
Net change in fund balance	201,069
Fund balance, beginning of year	1,827,626
Fund balance, end of year	\$ 2,028,695

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, 2011

	2011
Net change in Fund Balances - total governmental funds	\$ 201,069
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:	
Expenditures for capital assets	559,921
Less current year depreciation	(244,105)
	315,816
Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	
Repayment of loan principal	114,629
Change in Net Assets of Governmental Funds	\$ 631,514

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
STATEMENT OF NET ASSETS - PROPRIETARY FUND (WATER AND SEWER)  
June 30, 2011

<u>ASSETS</u>	2011
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	\$ 409,607
Receivables:	
Customers accounts	316,547
Other assets	13,228
	739,382
TOTAL CURRENT ASSETS	739,382
<u>CAPITAL ASSETS</u>	
Property, plant, and equipment, net of accumulated depreciation	8,961,387
Construction in progress	16,998
Bond and loan costs, net of amortization	32,660
	9,011,045
TOTAL CAPITAL ASSETS	9,011,045
TOTAL ASSETS	\$ 9,750,427
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Line of credit	\$ 456,862
Bank overdraft	390,611
Accrued sludge removal liability	297,100
Accrued inflow & infiltration liability	75,000
Current maturities of long-term debt	337,010
Accounts payable	53,045
Accrued expenses	43,887
Other liabilities	5,939
	1,659,454
TOTAL CURRENT LIABILITIES	1,659,454
<u>NON-CURRENT LIABILITIES</u>	
Bonds and notes payable	2,498,534
	2,498,534
TOTAL NON-CURRENT LIABILITIES	2,498,534
TOTAL LIABILITIES	4,157,988
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,685,980
Unrestricted	(93,541)
	5,592,439
TOTAL NET ASSETS	5,592,439
TOTAL LIABILITIES AND NET ASSETS	\$ 9,750,427

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, 2011

	2011
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash received from customers	\$ 1,120,743
Cash paid to suppliers, employees, and professional contractors	(843,815)
NET CASH PROVIDED BY OPERATING ACTIVITIES	276,928
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of capital assets	(201,341)
Principal payments on notes payable	(323,179)
Interest paid on notes payable	(118,777)
Capital improvement fees	89,450
Debt service fees	131,450
Connection fees	72,000
Improvement fees	42,000
Line of credit	(30,000)
Other	14,263
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(324,134)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest income	5
NET CASH PROVIDED BY INVESTING ACTIVITIES	5
INCREASE (DECREASE) IN CASH	(47,201)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (net of bank overdraft)	66,197
CASH AND CASH EQUIVALENTS AT END OF YEAR (net of bank overdraft)	\$ 18,996

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER & SEWER)  
FOR THE YEAR ENDED JUNE 30, 2011

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	2011
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u>	
<u>PROVIDED BY OPERATING ACTIVITIES</u>	
Operating income (loss)	\$ (186,125)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	373,918
(Increase) decrease in:	
Customer accounts receivable	(22,136)
Other receivables	13,577
Other assets	4,880
Increase (decrease) in:	
Accounts payable	(17,601)
Accrued operating expenses	(93)
Other accrued liabilities	110,508
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 276,928

## BURGESS AND COMMISSIONERS OF MIDDLETOWN

### NOTES TO FINANCIAL STATEMENTS

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#### 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

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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

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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.

The Town adopted Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ended June 30, 2011. The application of GASB 54 significantly alters the categories and terminology used to describe the components of the governmental fund balance. These changes are intended to increase the transparency of the financial statements, and improve the usefulness by establishing new fund balance classifications. GASB 54 implements a five-tier fund balance classification hierarchy that is intended to clarify the extent to which the Town is bound by spending constraints imposed on the use of its resources. Certain classifications do not apply to the Town's fund balance.

In the governmental fund financial statements, equity is classified as net assets and displayed in four components:

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

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

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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 the allowance for bad debts, 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, 2011 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, 2011.

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, 2011 is as follows:

	2010	Additions	Reductions	2011
<u>Governmental Activities</u>				
Non-depreciable assets	\$ 3,424,177	\$ 347,091	\$ 29,892	\$ 3,741,376
Depreciable				
Buildings and parking lots	1,241,642	17,042	-	1,258,684
Machinery & equipment	647,338	30,278	-	677,616
Parks and recreation	516,308	-	-	516,308
Vehicles	349,238	50,673	-	399,911
Streets	2,365,614	144,729	-	2,510,343
Total	\$ 8,544,317	\$ 589,813	\$ 29,892	\$ 9,104,238
Less accumulated depreciation				
Buildings	\$ 359,750	\$ 38,681	\$ -	\$ 398,431
Machinery & equipment	346,513	48,225	-	394,738
Parks and recreation	101,780	18,120	-	119,900
Vehicles	287,598	16,339	-	303,937
Streets	1,113,713	122,741	-	1,236,454
Total	\$ 2,209,354	\$ 244,106	\$ -	\$ 2,453,459
Net book value	\$ 6,334,963			\$ 6,650,779
<u>Business-type Activities</u>				
Non-depreciable assets	\$ 1,134,726	\$ 19,294	\$ 712,268	\$ 441,752
Depreciable				
Sewer distribution	7,203,639	53,502	-	7,257,141
Water distribution	6,627,144	83,226	-	6,710,370
Springs	17,387	-	-	17,387
Equipment	46,580	7,840	-	54,420
Vehicles	135,539	31,000	-	166,539
Buildings	25,787	-	-	25,787
Total	\$ 15,190,802	\$ 194,862	\$ 712,268	\$ 14,673,396
Less accumulated depreciation				
Sewer distribution	\$ 2,885,824	\$ 187,651	\$ -	\$ 3,073,475
Water distribution	2,274,800	170,912	-	2,445,712
Springs	4,830	435	-	5,265
Equipment	40,813	1,762	-	42,575
Vehicles	96,707	7,328	-	104,035
Buildings	22,903	1,046	-	23,949
Total	\$ 5,325,877	\$ 369,134	\$ -	\$ 5,695,011
Net book value	\$ 9,864,925			\$ 8,978,385

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Included in machinery and equipment is a wheel loader that was recognized under a capital lease arrangement. Aggregate future minimum lease payments under said lease for the years ending June 30 are as follows:

2012	\$ 22,960
	<u>22,960</u>
Less amounts related to interest	<u>1,155</u>
	<u>\$ 21,805</u>

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

<u>Governmental Activities</u>	
General government	\$ 103,244
Parks and recreation	\$ 18,121
Streets and alleys	\$ 122,741
 <u>Business Type Activities</u>	
Water and sewer utilities	\$ 369,134

Note 4 – Long-term Debt

The Town's long-term debt as of June 30, 2011 consisted of the following:

	<u>Balance</u>
<u>Governmental Activities</u>	
\$1,400,000 mortgage payable in monthly installments of \$11,071 including principal and interest at the fixed rate of 5%; due in full no later than February, 2020; and collateralized by park and recreation land.	\$ 932,821
\$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>204,000</u>
Total Governmental Activities	<u>1,136,821</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Business-type Activities

\$688,000 General Obligation Bond from Farmers Home Administration payable in semi-annual installments of \$19,973 including principal and interest at the fixed rate of 5%; with final payment due June 2021; and collateralized by the full faith and credit and unlimited taxing power of the Town.	324,385
\$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.	72,359
\$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.	585,800
\$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 \$10,485 with final payment due in February 2020; and collateralized by the full faith and credit and unlimited taxing power of the Town.	1,853,000
Total Business-type Activities	<u>2,835,544</u>
Total Long-term Debt	\$ 3,972,365

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>
2012	\$ 98,216	\$ 53,196	\$ 337,010	\$ 78,833
2013	103,229	48,317	344,805	69,091
2014	108,473	43,137	315,440	59,102
2015	113,960	37,694	324,450	50,330
2016	119,702	31,975	333,819	41,236
2017-2021	511,741	69,120	1,117,020	81,465
2022-2023	81,500	10,840	63,000	3,365
	<u>\$ 1,136,821</u>	<u>\$ 294,279</u>	<u>\$ 2,835,544</u>	<u>\$ 383,422</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, 2011.

<u>Description</u>	<u>Balance July 1, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2011</u>	<u>Balance Due Within One Year</u>
<b>Governmental Activities</b>					
Mortgage Payable	\$1,016,743	\$ -	\$ 83,922	\$ 932,821	\$ 88,216
Local Government					
Infrastructure Bonds	214,000	-	10,000	204,000	10,000
<b>Total Governmental Activities</b>	<u>\$1,230,743</u>	<u>\$ -</u>	<u>\$ 93,922</u>	<u>\$1,136,821</u>	<u>\$ 98,216</u>
<b>Business-type Activities</b>					
General Obligation Bond	\$ 344,250	\$ -	\$ 19,865	\$ 324,385	\$ 24,385
Maryland Water Quality					
Financing Administration Loan	106,739	-	34,380	72,359	35,891
Infrastructure Series A Bond	671,750	-	85,950	585,800	89,450
Maryland Water Quality Bond	2,035,984	-	182,984	1,853,000	187,284
<b>Total Business-type Activities</b>	<u>3,158,723</u>	<u>-</u>	<u>323,179</u>	<u>2,835,544</u>	<u>337,010</u>
<b>Total Long-term Debt</b>	<u>\$4,389,466</u>	<u>\$ -</u>	<u>\$ 417,101</u>	<u>\$3,972,365</u>	<u>\$ 435,226</u>

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2011.

The Town also has a \$2,000,000 line of credit bearing interest at LIBOR plus 2.35%.

Note 5 – Retirement Plan

Plan Description

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.

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 2011 was 7.30% of covered payroll. The Town's contribution to the plan was \$66,491 for 2011.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

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Note 6 – Commitments & Contingencies

The Town leases copiers under operating leases expiring in 2011 and 2015. Annual lease payments under the leases approximate \$12,000.

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. Prior to the issuance of the Town's 2011 financial statements, it was determined that the sludge at one its facilities that had been projected for 2018 would require removal during fiscal years 2011-2012. Accordingly, the full amount of the estimated dredging liability approximating \$297,000 has been accrued as of June 30, 2011 in conformity with GASB pronouncements. Any difference between the actual cost and the estimated liability at time of removal will be recognized as a change in estimate at the date the expenditure is incurred.

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 2011 representing one-fifth of the total estimated liability.

Note 7 – Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2011 through November 18, 2011, the date these financial statements were available to be issued. Based on the definitions and requirements of U.S. generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2011 through November 18, 2011, 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, 2011

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate	\$ 1,202,409	1,196,290	\$ (6,119)
Public utility	8,800	7,636	(1,164)
Tangible personal property	38,500	37,735	(765)
Franchise (Cable)	35,000	36,977	1,977
Penalties and interest	7,000	10,036	3,036
	<u>1,291,709</u>	<u>1,288,674</u>	<u>(3,035)</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	36,000	33,467	(2,533)
Highway	9,361	19,421	10,060
Income	621,400	711,087	89,687
Police protection	15,413	15,126	(287)
Miscellaneous grants	120,650	90,650	(30,000)
POS grants	379,180	201,172	(178,008)
	<u>1,182,004</u>	<u>1,070,923</u>	<u>(111,081)</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	<u>296,884</u>	<u>296,884</u>	<u>-</u>
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	2,000	1,965	(35)
Filing fees	5,000	5,790	790
Traders licenses	4,000	4,308	308
	<u>11,000</u>	<u>12,063</u>	<u>1,063</u>
<u>SERVICE CHARGES</u>			
Planning and zoning	<u>5,000</u>	<u>7,256</u>	<u>2,256</u>
<u>MISCELLANEOUS</u>			
Community events	15,000	1,496	(13,504)
Interest income	2,865	4,828	1,963
Contributions	62,500	62,500	-
Miscellaneous	2,791	2,374	(417)
Pavilion fees	1,500	2,190	690
Miscellaneous grants	16,000	13,831	(2,169)
	<u>100,656</u>	<u>87,219</u>	<u>(13,437)</u>
 TOTAL REVENUES	 <u>\$ 2,887,253</u>	 <u>\$ 2,763,019</u>	 <u>\$ (124,234)</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2011

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 2,000	\$ 2,821	\$ 821
Conventions and meetings	10,600	7,647	(2,953)
Dues and subscriptions	7,200	7,213	13
Office supplies and expense	3,500	2,125	(1,375)
Salaries - commissioners	12,000	12,000	-
	<u>35,300</u>	<u>31,806</u>	<u>(3,494)</u>
<u>EXECUTIVE</u>			
Salary - burgess	6,000	6,000	-
	<u>6,000</u>	<u>6,000</u>	<u>-</u>
<u>PROFESSIONAL SERVICES</u>			
Audit fee	12,000	12,435	435
Legal - development	5,000	836	(4,164)
Legal - ordinance	5,000	10,516	5,516
	<u>22,000</u>	<u>23,787</u>	<u>1,787</u>
<u>PLANNING AND ZONING</u>			
Salaries	40,852	33,053	(7,799)
Board member compensation	7,500	6,925	(575)
Zoning expenses	2,200	2,521	321
	<u>50,552</u>	<u>42,499</u>	<u>(8,053)</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	38,000	4,199	(33,801)
Administrative salaries	183,301	181,321	(1,980)
Amortization	-	342	342
Communications	8,800	8,095	(705)
Computer expense	14,500	18,537	4,037
Copier lease	7,200	8,656	1,456
Dues and subscriptions	100	-	(100)
Meetings and conventions	100	17	(83)
Office supplies and expense	11,644	11,845	201
Office maintenance and utilities	38,260	36,671	(1,589)
Postage and printing	1,000	1,209	209
Professional services	4,800	5,907	1,107
	<u>\$ 307,705</u>	<u>\$ 276,799</u>	<u>\$ (30,906)</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2011

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<b><u>OPERATIONS</u></b>			
Director salary	\$ 86,731	\$ 80,072	\$ (6,659)
Maintenance salaries	33,028	39,443	6,415
Maintenance capital outlay	22,800	6,361	(16,439)
Communications	5,939	5,018	(921)
Dues and subscriptions	500	213	(287)
Maintenance and repairs	13,950	10,410	(3,540)
Supplies and expense	6,200	10,739	4,539
Tools and equipment	2,500	2,550	50
	<u>171,648</u>	<u>154,806</u>	<u>(16,842)</u>
<b><u>PUBLIC SAFETY</u></b>			
Fire company donation	15,000	15,000	-
School safety guard and supplies	12,719	14,003	1,284
Resident trooper program	352,888	329,741	(23,147)
	<u>380,607</u>	<u>358,744</u>	<u>(21,863)</u>
<b><u>SANITATION AND WASTE REMOVAL</u></b>			
Collection and disposal fees	229,425	214,640	(14,785)
Eco-bags, yard waste, and recycling	60,847	43,449	(17,398)
	<u>290,272</u>	<u>258,089</u>	<u>(32,183)</u>
<b><u>PARKS, RECREATION AND CULTURE</u></b>			
Capital outlay	639,496	276,459	(363,037)
Park interest	48,931	48,931	-
Park loan payments	87,922	83,922	(4,000)
Park salaries	43,028	34,851	(8,177)
Park electricity	2,300	2,038	(262)
Park repairs and maintenance	27,349	15,408	(11,941)
Park mowing	18,600	13,794	(4,806)
	<u>867,626</u>	<u>475,403</u>	<u>(392,223)</u>
<b><u>HIGHWAYS AND STREETS</u></b>			
Capital outlay	501,562	272,903	(228,659)
Street interest	9,035	9,638	603
Street loan payments	10,000	10,000	-
Maintenance salaries	93,335	74,071	(19,264)
Equipment operations and repairs	10,795	10,331	(464)
Mowing	34,544	21,753	(12,791)
Repairs and resurfacing	83,700	15,189	(68,511)
Signs	5,400	5,909	509
Street lighting	132,000	158,405	26,405
Snow removal	34,850	43,135	8,285
Storm water management	12,000	1,496	(10,504)
Truck repair and operation	16,100	23,305	7,205
Case loader - principal and interest	22,960	22,234	(726)
	<u>\$ 966,281</u>	<u>\$ 668,369</u>	<u>\$ (297,912)</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2011

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 16,283	\$ 13,809	\$ (2,474)
MIP Grant expenses	90,650	-	(90,650)
Office expenses	10,293	8,845	(1,448)
	<u>117,226</u>	<u>22,654</u>	<u>(94,572)</u>
<u>MISCELLANEOUS</u>			
Community events	46,755	40,147	(6,608)
Donations	1,500	-	(1,500)
Insurance - property	13,658	9,166	(4,492)
Insurance - employee	84,680	85,435	755
Insurance - workers compensation	13,092	12,216	(876)
Miscellaneous	4,100	2,039	(2,061)
Payroll taxes	37,065	37,197	132
Pension	32,200	47,903	15,703
Travel	3,500	2,515	(985)
Web page and directory	3,000	6,376	3,376
	<u>239,550</u>	<u>242,994</u>	<u>3,444</u>
TOTAL EXPENDITURES	<u>3,454,767</u>	<u>2,561,950</u>	<u>(892,817)</u>
EXCESS OF REVENUE OVER EXPENDITURES	(567,514)	201,069	768,583
FUND BALANCE AT BEGINNING OF YEAR	<u>1,914,888</u>	<u>1,827,626</u>	<u>(87,262)</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,347,374</u>	<u>\$ 2,028,695</u>	<u>\$ 681,321</u>

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, 2011

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for services:			
Water revenue	\$ 469,223	\$ 487,966	\$ 18,743
Sewer revenue	469,223	484,182	14,959
Penalties and interest	15,000	14,281	(719)
Cellular tower leases	145,517	146,066	549
	<u>1,098,963</u>	<u>1,132,495</u>	<u>33,532</u>
<b><u>ADMINISTRATIVE EXPENSES</u></b>			
Amortization	-	4,783	4,783
Depreciation	-	369,136	369,136
Salaries - office	42,507	42,093	(414)
Advertising	1,000	56	(944)
Communications	8,995	7,521	(1,474)
Dues and subscriptions	250	265	15
Insurance - property	15,000	12,452	(2,548)
Insurance - worker's compensation	9,603	9,263	(340)
Insurance - health	41,010	40,446	(564)
Meetings and seminars	250	305	55
Office supplies and expense	7,500	9,584	2,084
Payroll taxes	13,591	16,320	2,729
Pension	14,976	18,589	3,613
Postage	6,000	6,920	920
Professional services - legal	1,500	933	(567)
Real estate taxes	300	292	(8)
Travel	100	33	(67)
Uniforms	2,800	2,478	(322)
Rain barrel/educational programs	5,000	11,343	
Vehicle expenses	20,600	13,723	(6,877)
	<u>190,982</u>	<u>566,535</u>	<u>369,210</u>
<b><u>WATER EXPENSES</u></b>			
<b><u>WATER</u></b>			
Salaries and wages	<u>70,776</u>	<u>87,976</u>	<u>17,200</u>
<b><u>WATER DISTRIBUTION SYSTEM</u></b>			
Chemicals	500	-	(500)
Repairs and maintenance	28,550	96,304	67,754
Supplies	-	1,454	1,454
Tools and equipment	1,000	502	(498)
	<u>30,050</u>	<u>98,260</u>	<u>68,210</u>
<b>TOTAL WATER DISTRIBUTION SYSTEM EXPENSES</b>	<b><u>\$ 30,050</u></b>	<b><u>\$ 98,260</u></b>	<b><u>\$ 68,210</u></b>

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, 2011

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER PLANT SYSTEM</u>			
Chemicals	\$ 16,500	\$ 16,981	\$ 481
Electric	44,500	43,067	(1,433)
Repairs and maintenance	12,000	14,621	2,621
Supplies	2,675	586	(2,089)
Testing and analysis	3,000	7,779	4,779
Mowing	-	3,300	3,300
Tools & equipment	500	535	
TOTAL WATER PLANT SYSTEM	79,175	86,869	7,659
TOTAL WATER SYSTEM EXPENSES	180,001	273,105	93,069
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	86,092	85,514	(578)
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	16,050	14,450	(1,600)
Brookridge South pumping station	18,600	9,995	(8,605)
Foxfield pumping station	5,000	6,743	1,743
Sanitary sewer lines and manholes	15,000	12,698	(2,302)
Inflow and infiltration	75,000	75,000	-
TOTAL SEWER COLLECTION SYSTEM EXPENSES	129,650	118,886	(10,764)
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	35,000	37,050	2,050
Electric	42,500	36,613	(5,887)
Mowing	4,371	3,102	(1,269)
Repairs and maintenance	19,100	5,682	(13,418)
Sludge hauling	43,400	66,013	22,613
Supplies	3,500	4,315	815
Testing and analysis	18,030	16,797	(1,233)
Tools and equipment	1,000	1,373	373
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES	\$ 166,901	\$ 170,945	\$ 4,044

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, 2011

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 40,500	\$ 39,264	\$ (1,236)
Electric	23,000	18,815	(4,185)
Mowing	2,759	2,139	(620)
Repairs and maintenance	5,577	3,099	(2,478)
Sludge hauling	15,523	30,300	14,777
Supplies	1,000	578	(422)
Testing and analysis	4,500	7,319	2,819
Tools and equipment	500	2,121	1,621
	<u>93,359</u>	<u>103,635</u>	<u>10,276</u>
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES	<u>93,359</u>	<u>103,635</u>	<u>10,276</u>
TOTAL SEWER SYSTEM EXPENSES	<u>476,002</u>	<u>478,980</u>	<u>2,978</u>
TOTAL OPERATING EXPENSES	<u>846,985</u>	<u>1,318,620</u>	<u>465,257</u>
OPERATING INCOME (LOSS)	<u>251,978</u>	<u>(186,125)</u>	<u>(431,725)</u>
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	127,200	132,500	5,300
Connection fees	204,000	72,000	(132,000)
Improvement fees	88,000	42,000	(46,000)
Capital improvement fee	89,300	89,400	100
Miscellaneous income	-	8,366	8,366
Capital contributions from developers	-	7,882	7,882
Interest income	-	5	5
Interest expense	(98,849)	(115,431)	(16,582)
	<u>409,651</u>	<u>236,722</u>	<u>(172,929)</u>
TOTAL OTHER INCOME (EXPENSE)	<u>409,651</u>	<u>236,722</u>	<u>(172,929)</u>
NET INCOME (LOSS)	661,629	50,597	(604,654)
NET ASSETS AT BEGINNING OF YEAR	<u>5,541,842</u>	<u>5,541,842</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,203,471</u>	<u>\$ 5,592,439</u>	<u>\$ (604,654)</u>

## **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 financial statements of **The Burgess and Commissioners of Middletown (“the Town”)** as of and for the year ended June 30, 2011, and have issued our report thereon dated November 18, 2011. 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**

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no such deficiencies in our audit procedures.

A control deficiency 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 misstatements on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town’s internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance with Laws and Regulations**

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*.

In connection with our audit of the financial statements for the year ended June 30, 2011, we have issued our letter to the governing body in conformity with Statement on Auditing Standards No. 115 regarding control related matters.

This report is intended solely for the information and use of the finance committee, Board of Directors, management, and federal, state, and local awarding agencies and pass-through entities 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  
November 18, 2011