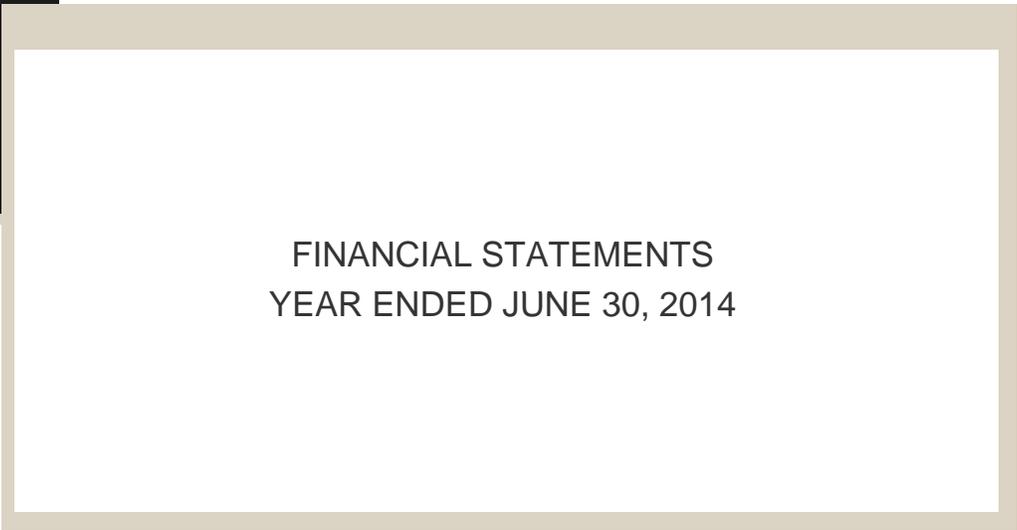




BURGESS AND COMMISSIONERS
OF MIDDLETOWN



FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

BURGESS AND COMMISSIONERS OF MIDDLETOWN

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Independent Auditors' Report

The Burgess and Commissioners of Middletown

Middletown, Maryland

Report on the Financial Statements

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 and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

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, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the included supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3-8 and 29-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 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 an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Albright Crumbacker Moul & Itell, LLC

Hagerstown, Maryland
November 14, 2014

The Burgess and Commissioners of Middletown Management's Discussion and Analysis June 30, 2014

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, 2014. 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 \$14,806,245 (net position) as of June 30, 2014.
- Total net position is comprised of the following:
 - (1) Invested in capital assets of \$12,783,432 include property and equipment net of accumulated depreciation (\$15,881,768) and net of outstanding debt (\$3,098,337) including the line of credit related to the purchase or construction of capital assets.
 - (2) Unrestricted net position of \$2,022,813 represents 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 \$1,828,622 this fiscal year. This compares to the prior year ending fund balance of \$2,036,565 reflecting a decrease of \$207,943.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of \$194,191, compared to \$49,477 reported for the prior fiscal year, an increase of \$144,714.

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

The *Statement of Activities* reports how the Town's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing 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 Town's funds 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.

- *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 Position 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.

Budgetary comparison schedules for both the general fund and water and sewer fund are included in the reporting package as required supplementary information to the basic financial statements.

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 position may be observed and used to discuss the changing financial position of the Town as a whole.

The Town's net position (i.e. assets in excess of liabilities) at fiscal year-end are \$14,806,245. This is a \$739,109 increase over last year's net assets of \$14,067,136. The following table provides a summary of the Town's net assets at June 30, 2014 and 2013:

Table 1
Town of Middletown
Fiscal Years Ended June 30,

	Governmental		Business-Type		Totals		Change
	2014	2013	2014	2013	2014	2013	
Assets:							
Current Assets	\$ 1,993,911	\$ 2,235,018	\$ 877,239	\$ 768,366	\$ 2,871,150	\$ 3,003,384	\$ (132,234)
Capital Assets	7,391,022	7,035,207	8,490,746	8,487,799	15,881,768	15,523,006	358,762
Other Assets	-	4,355	-	23,094	-	27,449	(27,449)
Total Assets	9,384,933	9,274,580	9,367,985	9,279,259	18,752,918	18,553,839	199,079
Liabilities:							
Current and Other Liabilities	296,464	330,944	1,049,409	850,244	1,345,873	1,181,188	164,685
Long-Term Liabilities	727,509	858,684	1,873,291	2,446,831	2,600,800	3,305,515	(704,715)
Total Liabilities	1,023,973	1,189,628	2,922,700	3,297,075	3,946,673	4,486,703	(540,030)
Net Position:							
Invested in capital assets, net of related debt	6,532,338	6,048,387	6,251,094	5,932,707	12,783,432	11,981,094	802,338
Unrestricted	1,828,622	2,036,565	194,191	49,477	2,022,813	2,086,042	(63,229)
Total Net Position	\$ 8,360,960	\$ 8,084,952	\$ 6,445,285	\$ 5,982,184	\$ 14,806,245	\$ 14,067,136	\$ 739,109

Governmental Activities include assets such as the Town Hall, Vehicles and Parks. Business-type Activities include Water and Sewer assets. The largest portion of the Town's net position 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 for the years ended June 30, 2014 and 2013. As shown, governmental activities increased the Town's net position by \$276,008 representing 38% of the total growth in the Town's net position. This compares to the previous year when governmental activities increased the Town's net position by \$77,634 or 22%.

The Town's revenues from governmental activities totaled \$2,948,856 for the fiscal year ended June 30, 2014. Revenue from taxes represented 92% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,145,436 and state income and highway user taxes of \$939,182.

The Town's expenditures from governmental activities totaled \$2,672,848 for the fiscal year ended June 30, 2014. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,187,962 or 45% and public services the second largest expense at \$708,893 or 27%.

Table 2
Changes in the Town of Middletown's Net Position
Fiscal Years Ended June 30,

	Governmental Activities		Business-Type Activities		Totals		Change
	2014	2013	2014	2013	2014	2013	
Revenues							
General Revenues							
Property Taxes	\$ 1,145,436	\$ 1,140,553	\$ -	\$ -	\$ 1,145,436	\$ 1,140,553	\$ 4,883
Income Taxes	774,117	695,154	-	-	774,117	695,154	78,963
Highway Taxes	132,049	38,352	-	-	132,049	38,352	93,697
County Taxes	617,781	598,134	-	-	617,781	598,134	19,647
Other Income	73,964	57,185	654,148	519,718	728,112	576,903	151,209
Interest Income	388	1,960	-	-	388	1,960	(1,572)
Program Revenues							
Public Safety	6,374	-	-	-	6,374	-	6,374
Parks and Recreation	127,930	2,030	-	-	127,930	2,030	125,900
Public Services	24,236	15,126	-	-	24,236	15,126	9,110
Water and Sewer	-	-	1,130,919	1,101,758	1,130,919	1,101,758	29,160
Other Income	46,581	28,646	163,150	157,224	209,731	185,870	23,860
Total Revenues	2,948,856	2,577,140	1,948,217	1,778,700	4,897,073	4,355,840	541,231
Expenditures							
General Government	1,187,962	1,011,399	-	-	1,187,962	1,011,399	176,563
Public Safety	345,122	415,806	-	-	345,122	415,806	(70,684)
Parks and Recreation	105,870	73,574	-	-	105,870	73,574	32,296
Public Services	708,893	699,256	-	-	708,893	699,256	9,636
Depreciation and Amortization	295,017	265,117	404,824	384,009	699,841	649,126	50,714
Interest Expense	29,984	34,354	79,113	102,332	109,097	136,686	(27,589)
Water/Sewer Utilities	-	-	1,001,179	1,009,490	1,001,179	1,009,490	(8,311)
Total Expenditures	2,672,848	2,499,506	1,485,116	1,495,831	4,157,964	3,995,337	162,625
Change in Net Position	276,008	77,634	463,101	282,869	739,109	360,503	378,606
Beginning Net Position	8,084,952	8,007,318	5,982,184	5,699,315	14,067,136	13,706,633	360,503
Total Net Position	\$ 8,360,960	\$ 8,084,952	\$ 6,445,285	\$ 5,982,184	\$ 14,806,245	\$ 14,067,136	\$ 739,109

Business-type Activities

Referring to Table 2, the Town's business-type activities include the water and sewer fund. The net position of these activities increased by \$463,101 for the fiscal year ended June 30, 2014. The major source of revenue is utility service charges for water and sewer which was \$1,130,919 representing 58% 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, unassigned 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, 2014, the Town's unassigned governmental fund balance decreased by \$191,467 to a balance of \$1,208,609. Such funds are generally available for spending at the Town's discretion.

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 position of the Town's Water and Sewer Fund for the fiscal year ended June 30, 2014 reported a balance of 194,191.

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, 2014 was \$15,881,768, 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 4 to the financial statements.

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

- Purchase of land to enhance the Town's walking trails
- Completion of walking trail from Linden Blvd. to the Primary School
- Completion of Walnut Street Bridge replacement
- Upgrade of Walnut Street Bridge Waterline
- Upgrade Locust Court Waterline
- Construction of War Memorial at Memorial Park
- Purchase of a new Computer Server
- Various upgrades to the Municipal Building
- Purchase of new Water Meter Reading Software and Meters

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, 2014 and 2013 was \$15,881,768 and \$15,523,006, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities increased by 3% from the prior year.

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

	Governmental Activities		Business-Type Activities		Totals		Amount Change
	2014	2013	2014	2013	2014	2013	
Non-Depreciable Assets:							
Land	\$ 3,837,515	\$ 3,752,165	\$ 441,374	\$ 422,461	\$ 4,278,889	\$ 4,174,626	\$ 104,263
Construction In Progress	289,377	504,156	-	5,000	289,377	509,156	(219,779)
Depreciable Assets:							
Buildings	821,871	838,266	-	217	821,871	838,483	(16,612)
Machinery & Equipment	269,455	277,173	46,337	27,614	315,792	304,787	11,005
Parks & Recreation	600,601	396,553	-	-	600,601	396,553	204,048
Vehicles	127,306	104,365	38,402	46,297	165,708	150,662	15,046
Streets	1,444,897	1,162,530	-	-	1,444,897	1,162,530	282,367
Sewer Distribution	-	-	3,660,093	3,821,342	3,660,093	3,821,342	(161,249)
Water Distribution	-	-	4,293,722	4,153,615	4,293,722	4,153,615	140,107
Springs	-	-	10,818	11,253	10,818	11,253	(435)
Total	\$ 7,391,022	\$ 7,035,208	\$ 8,490,746	\$ 8,487,799	\$ 15,881,768	\$ 15,523,007	\$ 358,761

Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$2,696,975 representing repayments of \$443,577 during the fiscal year ended June 30, 2014. Refer to Note 7 to the Financial Statements for more detailed information.

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

	Governmental		Business-Type		Totals		Change
	2014	2013	2014	2013	2014	2013	
Mortgage Payable - Park and Recreation Land	\$ 643,101	\$ 745,683	\$ -	\$ -	\$ 643,101	\$ 745,683	\$ (102,582)
Infrastructure Bonds - Street Expansion	172,500	183,500	-	-	172,500	183,500	(11,000)
Tax Exempt Bonds - Case Loader	43,083	57,638	-	-	43,083	57,638	(14,555)
Infrastructure Bonds - Water Distribution	-	-	252,000	276,000	252,000	276,000	(24,000)
Infrastructure Bonds - Water Distribution	-	-	308,450	403,700	308,450	403,700	(95,250)
Water Quality Loan - WWTP	-	-	1,277,841	1,474,031	1,277,841	1,474,031	(196,190)
Total	\$ 858,684	\$ 986,821	\$ 1,838,291	\$ 2,153,731	\$ 2,696,975	\$ 3,140,552	\$ (443,577)

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 revenue to maintain its current level of service to the Town’s residents. In efforts to accomplish 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. Management does not anticipate any 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 POSITION
June 30, 2014

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 1,856,443	\$ 526,934	\$ 2,383,377
Receivables:			
Customers accounts	-	326,935	326,935
Other	20,960	-	20,960
Due from other governments	32,748	-	32,748
Prepaid expenses	83,760	23,370	107,130
Capital assets:			
Land	3,837,515	441,374	4,278,889
Other capital assets, net of accumulated depreciation	3,264,130	8,049,372	11,313,502
Construction in progress	289,377	-	289,377
TOTAL ASSETS	9,384,933	9,367,985	18,752,918
LIABILITIES			
Disbursements in excess of available cash	-	191,835	191,835
Line of credit	-	401,362	401,362
Accounts payable	135,866	50,090	185,956
Accrued operating expenses	29,423	33,000	62,423
Other accrued liabilities	-	48,672	48,672
Current maturities of long-term debt	131,175	324,450	455,625
Accrued inflow and infiltration liability	-	300,000	300,000
Accrued sludge removal liability	-	59,450	59,450
Long-term debt	727,509	1,513,841	2,241,350
TOTAL LIABILITIES	1,023,973	2,922,700	3,946,673
NET POSITION			
Invested in capital assets, net of related debt	6,532,338	6,251,094	12,783,432
Unrestricted	1,828,622	194,191	2,022,813
TOTAL NET POSITION	\$ 8,360,960	\$ 6,445,285	\$ 14,806,245

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
		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	\$ 1,187,962	\$ 46,581	\$ -	\$ -	\$ (1,141,381)	\$ -	\$ (1,141,381)
Public safety	345,122	-	-	6,374	(338,748)	-	(338,748)
Parks and recreation	105,870	1,860	-	126,070	22,060	-	22,060
Public services	708,893	-	24,236	-	(684,657)	-	(684,657)
Depreciation and amortization	295,017	-	-	-	(295,017)	-	(295,017)
Interest	29,984	-	-	-	(29,984)	-	(29,984)
Total governmental activities	<u>2,672,848</u>	<u>48,441</u>	<u>24,236</u>	<u>132,444</u>	<u>(2,467,727)</u>	<u>-</u>	<u>(2,467,727)</u>
Business-type activities:							
Water and sewer utilities	1,485,116	1,294,069	-	-	-	(191,047)	(191,047)
Total business-type activities	<u>1,485,116</u>	<u>1,294,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(191,047)</u>	<u>(191,047)</u>
Total primary government	<u>\$ 4,157,964</u>	<u>\$ 1,342,510</u>	<u>\$ 24,236</u>	<u>\$ 132,444</u>	<u>(2,467,727)</u>	<u>(191,047)</u>	<u>(2,658,774)</u>
General revenues:							
Taxes							
Property					1,145,436	-	1,145,436
Income					774,117	-	774,117
Highway					132,049	-	132,049
County shared					584,765	-	584,765
Admissions and Amusement					33,016	-	33,016
Other					45,419	-	45,419
Other income					28,545	654,148	682,693
Interest income					388	-	388
Total general revenues					<u>2,743,735</u>	<u>654,148</u>	<u>3,397,883</u>
Change in net position					276,008	463,101	739,109
Net position - beginning of year					<u>8,084,952</u>	<u>5,982,184</u>	<u>14,067,136</u>
Net position - end of year					<u>\$ 8,360,960</u>	<u>\$ 6,445,285</u>	<u>\$ 14,806,245</u>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2014

ASSETS

Cash and cash equivalents	\$ 1,856,443
Receivables	20,960
Due from other governments	32,748
Prepaid expenses	83,760
	<hr/>
TOTAL ASSETS	<u>1,993,911</u>

LIABILITIES

Accounts payable	135,866
Accrued operating expenses	29,423
	<hr/>
TOTAL LIABILITIES	<u>165,289</u>

FUND BALANCE

Non-spendable	83,512
Committed	395,632
Assigned	140,869
Unassigned	1,208,609
	<hr/>
TOTAL FUND BALANCE	<u>1,828,622</u>
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,993,911</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2014

Fund Balance - total governmental funds	\$ 1,828,622
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 balance sheet	
Governmental capital assets, net of accumulated depreciation	7,391,022
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund	<u>(858,684)</u>
Net Position of Governmental Activities	<u>\$ 8,360,960</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

REVENUES

Taxes:

Local	\$ 1,145,436
State shared	939,182
County shared	584,765
Other	45,419
Operating grants	30,610
Capital grants and contributions	126,070
Licenses and permits	46,581
Service charges	1,860
Interest income	388
Other revenues	28,545

Total Revenues	2,948,856
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EXPENDITURES

General government	1,202,037
Public safety	345,122
Parks and recreation	340,133
Public services	1,107,030
Debt service:	
Principal	128,136
Interest	29,984
Other	4,357

Total Expenditures	3,156,799
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Net change in fund balance	(207,943)
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Fund balance, beginning of year	2,036,565
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Fund balance, end of year	\$ 1,828,622
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BURGESS AND COMMISSIONERS OF MIDDLETOWN
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

Net change in Fund Balance - total governmental funds	\$	(207,943)
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.		355,815
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 and loan proceeds from newly issued debt.		<u>128,136</u>
Change in Net Position of Governmental Funds	\$	<u><u>276,008</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUND (WATER AND SEWER)
June 30, 2014

<u>ASSETS</u>	
Cash and cash equivalents	\$ 526,934
Customer accounts receivable	326,935
Prepaid expenses	23,370
Capital assets:	
Land	403,196
Other capital assets, net of accumulated depreciation	8,087,550
	9,367,985
 TOTAL ASSETS	 9,367,985
<u>LIABILITIES</u>	
Disbursements in excess of available cash	191,835
Line of credit	401,362
Accounts payable	50,090
Accrued expenses	33,000
Other accrued liabilities	48,672
Current maturities of long-term debt	324,450
Accrued inflow and infiltration liability	300,000
Accrued sludge removal liability	59,450
Long-term debt	1,513,841
	2,922,700
 TOTAL LIABILITIES	 2,922,700
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	6,251,094
Unrestricted	194,191
	6,445,285
 TOTAL NET POSITION	 \$ 6,445,285

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 POSITION - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES

Charges for services:

Water fees	\$ 557,321
Sewer fees	554,722
Late payment fees	18,876
Water tower cell phone antenna leases	163,150

TOTAL OPERATING REVENUES	1,294,069
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OPERATING EXPENSES

Administrative	196,487
Depreciation and amortization	404,824
Water expenses	286,575
Sewer expenses	518,117

TOTAL OPERATING EXPENSES	1,406,003
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OPERATING INCOME (LOSS)	(111,934)
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NON-OPERATING REVENUES (EXPENSES)

Capital improvement fees	117,549
Connection fees	105,000
Debt service fees	137,607
Improvement fees	45,000
Interest expense	(79,113)
Other non-operating revenues	248,992

TOTAL NON-OPERATING REVENUES (EXPENSES)	575,035
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CHANGE IN NET POSITION	463,101
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TOTAL NET POSITION, BEGINNING OF YEAR	5,982,184
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TOTAL NET POSITION, END OF YEAR	\$ 6,445,285
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BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,319,395
Cash paid to suppliers, employees, and professional contractors	<u>(920,573)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>398,822</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(384,678)
Principal payments on notes payable	(315,440)
Interest paid on notes payable	(81,951)
Capital improvement fees	115,060
Debt service fees	147,526
Connection fees	105,000
Improvement fees	45,000
Noncapital financing from the general fund	227,300
Other	<u>19,138</u>
 NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(123,045)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of assets	59
Interest income	<u>836</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>895</u>

INCREASE (DECREASE) IN CASH	276,672
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (net of bank overdraft)	<u>58,427</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR (net of bank overdraft)	<u><u>\$ 335,099</u></u>
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BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2014

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$	(111,934)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		404,824
(Increase) decrease in:		
Customer accounts receivable		29,556
Other assets		(6,875)
Increase (decrease) in:		
Accounts payable		5,467
Accrued operating expenses		(3,679)
Accrued sludge removal liability		(8,650)
Accrued inflow and infiltration liability		75,000
Other accrued liabilities		15,113
NET CASH USED BY OPERATING ACTIVITIES	\$	<u>398,822</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE 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 position 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 THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (continued)

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 Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The Town has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurements focus is upon determination of changes in financial position, rather than upon net income determination.

The Town has one major governmental fund. The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some separate fund are accounted for in this fund.

Proprietary Fund Types: Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

An enterprise fund is used to finance and account for the acquisition, operation, and maintenance of the Town's facilities and services which are supported primarily by user charges. The Water and Sewer Fund accounts for the operation and maintenance of the water and sanitary sewer system.

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.

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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (continued)

Receivables

Consumer accounts receivable are carried at original invoice amounts. All delinquent accounts receivable, including property taxes, are considered to be fully collectible, and therefore, no allowance for doubtful accounts has been recorded. An account receivable is considered to be past due if any portion of the receivable is outstanding for more than 30 days.

Property taxes receivable are recorded in the General Fund. At fiscal year-end, the receivables represent amounts due from residents and 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.

Prepaid Expenditures

Payments made to vendors for services that will benefit the Town in periods beyond the end of the fiscal year are reported as prepaid expenditures using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and reflecting the expenditure in the year in which services are consumed.

Capital Assets

Capital assets, including land, buildings, improvements, equipment, and infrastructure (roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of more than \$1,000 for land, buildings, improvements, and equipment, and \$15,000 for infrastructure and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

GASB Statement No. 34 requires the Town to report all governmental activities' infrastructure assets acquired after June 30, 2003, and encourages, but does not require, the Town to retroactively report infrastructure assets acquired after June 30, 1980. The Town has elected not to retroactively report infrastructure assets and the accompanying basic financial statements only include infrastructure assets acquired after June 30, 2003.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

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

Note 1 - Significant Accounting Policies (continued)

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 reported as an accrued liability when earned.

Equity Classifications

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

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

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

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

The Town's policy regarding an expense for which both restricted and unrestricted net position is 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 position and displayed in each of the applicable five components as prescribed by GASB 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, etc.).

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, etc.).

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.

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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (continued)

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 future 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 – Risks 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 THE FINANCIAL STATEMENTS

Note 4 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	2013	Additions	Reductions	2014
Governmental Activities				
Non-depreciable assets:				
Land	\$ 3,752,165	\$ 85,350	\$ -	\$ 3,837,515
Construction in progress	504,156	443,342	658,121	289,377
Depreciable:				
Buildings and improvements	1,306,893	23,980	-	1,330,873
Machinery and equipment	697,488	42,125	39,738	699,875
Parks and recreation	556,018	226,889	-	782,907
Vehicles	449,970	51,678	37,603	464,045
Streets	2,668,397	431,232	-	3,099,629
Total	<u>9,935,087</u>	<u>1,304,596</u>	<u>735,462</u>	<u>10,504,221</u>
Less accumulated depreciation				
Buildings and improvements	468,627	40,375	-	509,002
Machinery and equipment	420,315	47,285	37,180	430,420
Parks and recreation	159,465	22,841	-	182,306
Vehicles	345,605	28,737	37,603	336,739
Streets	1,505,867	148,865	-	1,654,732
Total	<u>2,899,879</u>	<u>\$ 288,103</u>	<u>\$ 74,783</u>	<u>3,113,199</u>
Net book value	<u>\$ 7,035,208</u>		<u>\$ 7,391,022</u>	
Business-type Activities				
Non-depreciable assets:				
Land	\$ 422,461	\$ 18,913	\$ -	\$ 441,374
Construction in progress	5,000	263,029	268,029	-
Depreciable:				
Sewer distribution	7,268,436	24,363	-	7,292,799
Water distribution	6,915,954	320,368	8,500	7,227,822
Springs	17,387	-	-	17,387
Equipment	64,483	26,033	-	90,516
Vehicles	123,117	-	-	123,117
Buildings	25,787	-	-	25,787
Total	<u>14,842,625</u>	<u>652,706</u>	<u>276,529</u>	<u>15,218,802</u>
Less accumulated depreciation				
Sewer distribution	3,447,094	185,612	-	3,632,706
Water distribution	2,762,339	180,261	8,500	2,934,100
Springs	6,134	435	-	6,569
Equipment	36,869	7,310	-	44,179
Vehicles	76,820	7,895	-	84,715
Buildings	25,570	217	-	25,787
Total	<u>6,354,826</u>	<u>\$ 381,730</u>	<u>\$ 8,500</u>	<u>6,728,056</u>
Net book value	<u>\$ 8,487,799</u>		<u>\$ 8,490,746</u>	

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 4 – Capital Assets (continued)

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

<u>Governmental Activities</u>	
General government	\$ 116,397
Parks and recreation	22,841
Streets and alleys	148,865
	<u>\$ 288,103</u>
 <u>Business Type Activities</u>	
Water and sewer utilities	<u>\$ 381,730</u>

Note 5 – Line of Credit

The Town has a revolving line of credit bearing interest at 2.01% plus LIBOR. The Town did not borrow any additional funds from the line of credit during the year ended June 30, 2014. The outstanding balance at year end was \$401,362. The entire outstanding principal balance due, all accrued and unpaid interest thereon, are due and payable, if not sooner paid, on the 14th day of February 2017.

Note 6 – Commitments and Contingencies

The Town leases a copier under an operating lease expiring in 2015. Annual lease payments under the lease approximates \$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 and 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. The next study is expected to be performed in FY2016. 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 2014 representing one-fifth of the total estimated liability. As of June 30, 2014, the Town has reported a total liability for future inflow and infiltration costs of \$300,000.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 7 – Long-term Debt

The Town's long-term debt as of June 30, 2014 consisted of the following:

Governmental Activities

\$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. \$ 643,101

\$60,632 tax exempt bonds payable in annual installments of principal, ranging from \$14,500 in year one to \$14,750 in the final year, plus interest at 2.75%; and collateralized by the 2011 case loader that was purchased with the bond proceeds. 43,083

\$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. 172,500

Total Governmental Activities 858,684

Business-type Activities

\$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. 252,000

\$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. 308,450

\$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. 1,277,841

Total Business-type Activities 1,838,291

Total Long-term Debt \$ 2,696,975

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 7 – Long-term Debt (continued)

<u>Description</u>	<u>Balance July 1, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2014</u>	<u>Balance Due Within One Year</u>
Governmental Activities					
Mortgage Payable	\$ 745,682	\$ -	\$ 102,581	\$ 643,101	\$ 105,702
Infrastructure Series A Bond	183,500	-	11,000	172,500	11,500
Tax Exempt Bond - Loader	57,638	-	14,555	43,083	13,973
Total Governmental Activities	986,820	-	128,136	858,684	131,175
Business-type Activities					
Infrastructure Series A Bond	276,000	-	24,000	252,000	25,000
Infrastructure Series A Bond	403,700	-	95,250	308,450	98,650
Maryland Water Quality Bond	1,474,031	-	196,190	1,277,841	200,800
Total Business-type Activities	2,153,731	-	315,440	1,838,291	324,450
Total Long-term Debt	\$ 3,140,551	\$ -	\$ 443,576	\$ 2,696,975	\$ 455,625

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>
2015	\$ 131,175	\$ 26,333	\$ 324,450	\$ 50,330
2016	135,274	22,256	333,819	41,236
2017	139,482	18,051	343,349	31,620
2018	128,643	13,713	242,292	21,481
2019	132,661	9,656	247,851	15,566
2020-2024	156,948	18,324	346,530	16,166
2025-2026	34,501	2,267	-	-
	\$ 858,684	\$ 110,600	\$ 1,838,291	\$ 176,399

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2014.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 8 – 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.

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, 2014 was 10.46% of covered payroll. The Town's contribution to the plan was \$68,085 for the year ended June 30, 2014.

Note 9 – Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2014 through November 14, 2014, 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, 2014 through November 14, 2014, that require recognition or disclosure in the financial statements.

Required Supplementary Information

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2014

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate, net of discounts	\$ 1,080,728	\$ 1,097,728	\$ 17,000
Public utility	9,618	10,664	1,046
Tangible personal property	33,500	35,392	1,892
Penalties and interest	9,105	1,652	(7,453)
	<u>1,132,951</u>	<u>1,145,436</u>	<u>12,485</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	40,628	33,016	(7,612)
Highway	122,500	132,049	9,549
Income	755,958	774,117	18,159
Police protection	24,000	24,236	236
	<u>943,086</u>	<u>963,418</u>	<u>20,332</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	<u>584,765</u>	<u>584,765</u>	<u>-</u>
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	1,950	-	(1,950)
Planning and zoning	9,500	39,683	30,183
Traders licenses	4,900	6,898	1,998
	<u>16,350</u>	<u>46,581</u>	<u>30,231</u>
<u>MISCELLANEOUS</u>			
Interest income	-	388	388
State grants	217,963	132,444	(85,519)
Franchise (cable) taxes	44,125	45,419	1,294
Pavilion fees	1,900	1,860	(40)
Miscellaneous income	38,774	28,545	(10,229)
	<u>302,762</u>	<u>208,656</u>	<u>(94,106)</u>
TOTAL REVENUES	<u>\$ 2,979,914</u>	<u>\$ 2,948,856</u>	<u>\$ (31,058)</u>

* There were no significant budget amendments made during fiscal year 2014, 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, 2014

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 750	\$ 513	\$ (237)
Communications	3,480	3,394	(86)
Conventions and meetings	9,900	4,633	(5,267)
Dues and subscriptions	7,222	7,420	198
Office supplies and expense	3,600	2,731	(869)
Salaries - commissioners	12,000	12,000	-
	<u>36,952</u>	<u>30,691</u>	<u>(6,261)</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	12,500	13,000	500
Legal - development and ordinance	7,500	8,892	1,392
	<u>20,000</u>	<u>21,892</u>	<u>1,892</u>
<u>PLANNING AND ZONING</u>			
Salaries	44,356	39,200	(5,156)
Zoning expenses	1,300	10,393	9,093
	<u>45,656</u>	<u>49,593</u>	<u>3,937</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	-	14,075	14,075
Administrative salaries	195,536	199,118	3,582
Amortization	-	4,355	4,355
Communications	7,925	7,824	(101)
Computer expense	16,905	26,983	10,078
Copier lease	-	13,543	13,543
Dues and subscriptions	150	111	(39)
Grant to water and sewer fund	100,000	227,800	127,800
Meetings and conventions	100	26	(74)
Office supplies and expense	23,520	10,207	(13,313)
Office maintenance and utilities	45,368	42,395	(2,973)
Postage and printing	2,500	74	(2,426)
Professional services	6,600	6,809	209
	<u>\$ 398,604</u>	<u>\$ 553,320</u>	<u>\$ 154,716</u>

* There were no significant budget amendments made during fiscal year 2014, 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, 2014

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Director salary	\$ 85,572	\$ 86,659	\$ 1,087
Maintenance salaries	28,085	40,297	12,212
Communications	6,600	6,878	278
Dues and subscriptions	-	1,509	1,509
Maintenance and repairs	19,480	13,900	(5,580)
Mowing	-	10,646	10,646
Supplies and expense	13,760	6,540	(7,220)
Tools and equipment	3,000	3,256	256
	<u>156,497</u>	<u>169,685</u>	<u>13,188</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	15,000	15,000	-
School safety guard and supplies	16,309	13,747	(2,562)
Community deputy program	353,499	316,375	(37,124)
	<u>384,808</u>	<u>345,122</u>	<u>(39,686)</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Resident trash and yard waste	275,447	266,836	(8,611)
	<u>275,447</u>	<u>266,836</u>	<u>(8,611)</u>
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	-	234,263	234,263
Rensburg Park interest	20,968	20,968	-
Rensburg Park loan payments	102,582	102,582	-
Park salaries	37,892	49,802	11,910
Park electricity	1,500	1,807	307
Park repairs and maintenance	32,800	32,148	(652)
Park mowing	34,651	22,113	(12,538)
	<u>230,393</u>	<u>463,683</u>	<u>233,290</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	-	398,137	398,137
Interest	8,478	9,016	538
East Green Street loan payments	11,000	11,000	-
Case Loader loan payments	14,555	14,555	-
Maintenance salaries	91,927	90,310	(1,617)
Equipment operations and repairs	11,800	2,281	(9,519)
Mowing	31,744	27,648	(4,096)
Repairs and resurfacing	100,000	34,504	(65,496)
Signs	3,500	5,367	1,867
Street lighting	151,200	160,240	9,040
Snow removal	52,125	80,759	28,634
Storm water management	1,500	7,688	6,188
Truck repair and operation	19,300	40,460	21,160
	<u>\$ 497,129</u>	<u>\$ 881,965</u>	<u>\$ 384,836</u>

* There were no significant budget amendments made during fiscal year 2014, 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, 2014

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 32,136	\$ 41,190	\$ 9,054
Town contribution	12,000	9,523	(2,477)
	<u>44,136</u>	<u>50,713</u>	<u>6,577</u>
<u>MISCELLANEOUS</u>			
Community events	82,358	76,268	(6,090)
Donations	100	-	(100)
Insurance - property	12,748	12,559	(189)
Insurance - employee	107,892	98,119	(9,773)
Insurance - workers compensation	-	14,784	14,784
Miscellaneous	5,000	15,116	10,116
Payroll taxes	44,420	41,414	(3,006)
Pension	54,607	49,131	(5,476)
Real estate taxes	753	2,356	1,603
Travel	1,500	2,698	1,198
Web page and directory	5,555	4,445	(1,110)
Other	3,500	-	(3,500)
	<u>318,433</u>	<u>316,890</u>	<u>(1,543)</u>
<u>ELECTION</u>			
Clerk fees	450	350	(100)
Other administrative expenses	250	59	(191)
	<u>700</u>	<u>409</u>	<u>(291)</u>
TOTAL EXPENDITURES	<u>2,414,755</u>	<u>3,156,799</u>	<u>742,044</u>
EXCESS OF REVENUE OVER EXPENDITURES	565,159	(207,943)	(773,102)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,036,565</u>	<u>2,036,565</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,601,724</u>	<u>\$ 1,828,622</u>	<u>\$ (773,102)</u>

* There were no significant budget amendments made during fiscal year 2014, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2014

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 553,200	\$ 557,321	\$ 4,121
Sewer revenue	552,046	554,722	2,676
Penalties and interest	14,500	18,876	4,376
Miscellaneous	1,575	-	(1,575)
Water tower and land leases	-	163,150	163,150
TOTAL OPERATING REVENUES	1,121,321	1,294,069	172,748
<u>ADMINISTRATIVE EXPENSES</u>			
Amortization	-	23,094	23,094
Depreciation	-	381,730	381,730
Salaries - office	41,993	38,059	(3,934)
Advertising	500	863	363
Communications	7,000	7,761	761
Dues and subscriptions	500	987	487
Insurance - property	8,000	7,643	(357)
Insurance - worker's compensation	12,306	8,168	(4,138)
Insurance - health	46,504	37,781	(8,723)
Meetings and seminars	250	895	645
Office supplies and expense	11,000	14,470	3,470
Payroll taxes	18,471	19,081	610
Pension	18,968	18,954	(14)
Postage	9,000	9,098	98
Professional services - legal	8,500	10,578	2,078
Real estate taxes	292	292	-
Travel	-	175	175
Uniforms	2,800	2,726	(74)
Rain barrel/educational programs	3,150	3,276	126
Waterline	32,550	-	(32,550)
TOTAL ADMINISTRATIVE EXPENSES	221,784	585,631	363,847
<u>VEHICLES AND EQUIPMENT</u>			
1999 Truck	3,700	333	(3,367)
2001 Truck	3,400	546	(2,854)
2008 Truck	3,200	4,583	1,383
2012 Truck	-	3,268	3,268
2013 Truck	-	5,757	5,757
Miscellaneous Equipment	4,275	-	(4,275)
Bobcat Mini-Excavator	-	555	555
Case Backhoe	3,000	638	(2,362)
TOTAL VEHICLES AND EQUIPMENT EXPENSES	17,575	15,680	(1,895)
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	115,895	113,066	(2,829)
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	500	185	(315)
Repairs and maintenance	22,000	67,276	45,276
Supplies	2,500	3,764	1,264
Tools and equipment	9,600	9,468	(132)
Water meters	105,838	-	(105,838)
Water line break repairs	5,000	72	(4,928)
TOTAL WATER DISTRIBUTION SYSTEM EXPENSES	\$ 145,438	\$ 80,765	\$ (64,673)

* There were no significant budget amendments made during fiscal year 2014, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2014

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER SOURCES AND TREATMENT</u>			
Electric	\$ 31,370	\$ 26,703	\$ (4,667)
Supplies	7,000	787	(6,213)
Repairs and maintenance	28,600	32,305	3,705
Chemicals	20,000	20,454	454
Tools and equipment	2,400	2,007	(393)
Testing and analysis	9,000	10,488	1,488
	<u>98,370</u>	<u>92,744</u>	<u>(5,626)</u>
TOTAL WATER PLANT SYSTEM			
	<u>359,703</u>	<u>286,575</u>	<u>(73,128)</u>
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	114,952	107,724	(7,228)
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	34,364	27,036	(7,328)
Brookridge South pumping station	9,700	9,854	154
Foxfield pumping station	5,940	6,968	1,028
Sanitary sewer lines and manholes	10,500	17,316	6,816
Inflow and infiltration	75,000	75,000	-
	<u>135,504</u>	<u>136,174</u>	<u>670</u>
TOTAL SEWER COLLECTION SYSTEM EXPENSES			
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	42,000	32,727	(9,273)
Electric	33,000	38,450	5,450
Repairs and maintenance	9,700	11,960	2,260
Sludge hauling	56,400	45,596	(10,804)
Supplies	10,500	8,162	(2,338)
Testing and analysis	19,500	22,982	3,482
Tools and equipment	8,400	2,849	(5,551)
	<u>179,500</u>	<u>162,726</u>	<u>(16,774)</u>
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES			

* There were no significant budget amendments made during fiscal year 2014, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2014

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 47,520	\$ 53,057	\$ 5,537
Electric	20,000	18,989	(1,011)
Repairs and maintenance	6,700	7,102	402
Sludge hauling	22,650	17,663	(4,987)
Supplies	750	4,474	3,724
Testing and analysis	7,800	8,808	1,008
Tools and equipment	1,000	1,400	400
	<u>106,420</u>	<u>111,493</u>	<u>5,073</u>
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES			
	<u>106,420</u>	<u>111,493</u>	<u>5,073</u>
TOTAL SEWER SYSTEM EXPENSES	<u>536,376</u>	<u>518,117</u>	<u>(18,259)</u>
TOTAL OPERATING EXPENSES	<u>1,135,438</u>	<u>1,406,003</u>	<u>270,565</u>
OPERATING INCOME (LOSS)	<u>(14,117)</u>	<u>(111,934)</u>	<u>(97,817)</u>
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	-	137,607	137,607
Connection fees	-	105,000	105,000
Improvement fees	-	45,000	45,000
Capital improvement fee	-	117,549	117,549
Grant from general fund	100,000	227,300	127,300
Miscellaneous income	-	15,270	15,270
Capital contributions from developers	-	5,586	5,586
Interest income	-	836	836
Interest expense	-	(79,113)	(79,113)
	<u>100,000</u>	<u>575,035</u>	<u>475,035</u>
TOTAL OTHER INCOME (EXPENSE)			
	<u>100,000</u>	<u>575,035</u>	<u>475,035</u>
NET INCOME (LOSS)	85,883	463,101	377,218
NET POSITION AT BEGINNING OF YEAR	<u>5,982,184</u>	<u>5,982,184</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 6,068,067</u>	<u>\$ 6,445,285</u>	<u>\$ 377,218</u>

* There were no significant budget amendments made during fiscal year 2014, 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

Burgess and Commissioners of Middletown
Middletown, Maryland

We have audited, 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, the 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 and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

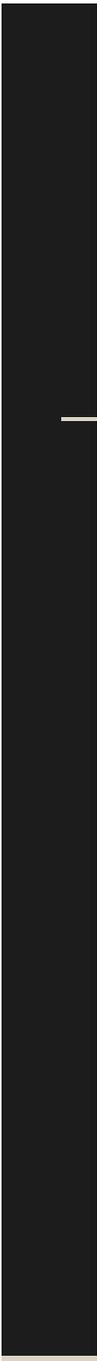
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

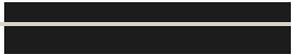
Albright Crumbaker Moul & Itell LLC

Hagerstown, Maryland
November 14, 2014



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