

BURGESS AND COMMISSIONERS OF MIDDLETOWN

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015

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, 2015, 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 opinions.

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, 2015, 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.

Emphasis of a Matter

During fiscal year ended June 30, 2015, the Town adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and related GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment* of GASB No. 68. As a result of the implementation of GASB No. 68 and 71, the Town reported a restatement for the change in accounting principle (see Note 9). Our auditors' opinions were not modified with respect to the restatement.

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 32-38 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 9, 2015 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 9, 2015

**The Burgess and Commissioners of Middletown
Management's Discussion and Analysis
June 30, 2015**

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, 2015. 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 \$14,997,495 (net position) as of June 30, 2015.
- Total net position is comprised of the following:
 - (1) Invested in capital assets of \$13,117,594 include property and equipment net of accumulated depreciation (\$10,502,607) and net of outstanding debt (\$2,628,331) including the line of credit related to the purchase or construction of capital assets.
 - (2) Unrestricted net position of \$1,879,901 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 \$1,579,305 this fiscal year. This compares to the prior year ending fund balance of \$1,828,622 reflecting a decrease of \$249,317.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of \$570,714, compared to \$194,191 reported for the prior fiscal year, an increase of \$376,523, exclusive of the prior period adjustment for change in accounting principle of (\$109,604).

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 \$14,997,495. This is a \$191,250 increase over last year's net assets of \$14,806,245, and inclusive of a prior period adjustment of (\$393,712). The following table provides a summary of the Town's net assets at June 30, 2015 and 2014:

Table 1
Town of Middletown
Fiscal Years Ended June 30,

	Governmental		Business-Type		Totals		Change
	2015	2014	2015	2014	2015	2014	
Assets:							
Current Assets	\$ 1,745,538	\$ 1,993,911	\$ 1,281,478	\$ 877,239	\$ 3,027,016	\$ 2,871,150	\$ 155,866
Capital Assets	7,565,351	7,391,022	8,180,575	8,490,746	15,745,926	15,881,768	(135,842)
Other Assets	-	-	-	-	-	-	-
Total Assets	9,310,889	9,384,933	9,462,053	9,367,985	18,772,942	18,752,918	20,024
Deferred Outflows of Resources	60,610	-	21,193	-	81,803	-	81,803
Total Assets and Deferred Outflows of Resources	9,371,499	9,384,933	9,483,246	9,367,985	18,854,745	18,752,918	101,827
Liabilities:							
Current and Other Liabilities	301,880	296,464	890,798	1,049,409	1,192,678	1,345,873	(153,195)
Net Pension Liability	298,099	-	104,232	-	402,331	-	402,331
Long-Term Liabilities	577,482	727,509	1,640,721	1,873,291	2,218,203	2,600,800	(382,597)
Total Liabilities	1,177,461	1,023,973	2,635,751	2,922,700	3,813,212	3,946,673	(133,461)
Deferred Inflows of Resources	32,629	-	11,409	-	44,038	-	44,038
Total Liabilities and Deferred Outflows of Resources	1,210,090	1,023,973	2,647,160	2,922,700	3,857,250	3,946,673	(89,423)
Net Position:							
Invested in capital assets, net of related debt	6,852,222	6,532,338	6,265,372	6,251,094	13,117,594	12,783,432	334,162
Unrestricted	1,309,187	1,828,622	570,714	194,191	1,879,901	2,022,813	(142,912)
Total Net Position	\$ 8,161,409	\$ 8,360,960	\$ 6,836,086	\$ 6,445,285	\$ 14,997,495	\$ 14,806,245	\$ 191,250

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, 2015 and 2014. As shown, governmental activities increased the Town's net position by \$84,557 representing 10% 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 \$276,008, or 38%.

The Town's revenues from governmental activities totaled \$2,896,666, for the fiscal year ended June 30, 2015. Revenue from taxes represented 95% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,169,795 and state income and highway user taxes of \$925,683.

The Town's expenditures from governmental activities totaled \$2,812,109 for the fiscal year ended June 30, 2015. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,140,396 or 41% and public services the second largest expense at \$841,991 or 30%.

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

	Governmental Activities		Business-Type Activities		Totals		Change
	2015	2014	2015	2014	2015	2014	
Revenues							
General Revenues							
Property Taxes	\$ 1,169,795	\$ 1,145,436	\$ -	\$ -	\$ 1,169,795	\$ 1,145,436	\$ 24,359
Income Taxes	788,153	774,117	-	-	788,153	774,117	14,036
Highway Taxes	137,530	132,049	-	-	137,530	132,049	5,481
County Taxes	601,967	617,781	-	-	601,967	617,781	(15,814)
Other Income	68,131	73,964	694,156	654,148	762,287	728,112	34,175
Interest Income	154	388	-	-	154	388	(234)
Program Revenues							
Public Safety	-	6,374	-	-	-	6,374	(6,374)
Parks and Recreation	60,589	127,930	-	-	60,589	127,930	(67,341)
Public Services	24,066	24,236	-	-	24,066	24,236	(170)
Water and Sewer	-	-	1,136,639	1,130,919	1,136,639	1,130,919	5,720
Other Income	46,281	46,581	169,701	163,150	215,982	209,731	6,251
Total Revenues	2,896,666	2,948,856	2,000,496	1,948,217	4,897,162	4,897,073	89
Expenditures							
General Government	1,140,396	1,187,962	-	-	1,140,396	1,187,962	(47,566)
Public Safety	368,187	345,122	-	-	368,187	345,122	23,065
Parks and Recreation	108,586	105,870	-	-	108,586	105,870	2,716
Public Services	841,991	708,893	-	-	841,991	708,893	133,098
Depreciation and Amortization	326,952	295,017	398,279	404,824	725,231	699,841	25,390
Interest Expense	25,997	29,984	67,618	79,113	93,615	109,097	(15,482)
Water/Sewer Utilities	-	-	1,034,194	1,001,179	1,034,194	1,001,179	33,015
Total Expenditures	2,812,109	2,672,848	1,500,091	1,485,116	4,312,200	4,157,964	154,236
Change in Net Position	84,557	276,008	500,405	463,101	584,962	739,109	(154,147)
Restatement, Financial Statement Note 9	(284,108)	-	(109,604)	-	(393,712)	-	(393,712)
Beginning Net Position	8,360,960	8,084,952	6,445,285	5,982,184	14,806,245	14,067,136	739,109
Total Net Position	\$ 8,161,409	\$ 8,360,960	\$ 6,836,086	\$ 6,445,285	\$ 14,997,495	\$ 14,806,245	\$ 191,250

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 \$500,405 for the fiscal year ended June 30, 2015. The major source of revenue is utility service charges for water and sewer which was \$1,136,639 representing 57% 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, 2015, the Town's unassigned governmental fund balance decreased by \$240,666 to a balance of \$967,943, inclusive of the prior period adjustment of (\$284,108). 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, 2015 reported a balance of \$570,714.

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, 2015 was \$15,745,926, 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, 2015 and 2014 was \$15,745,926 and \$15,881,768, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities decreased by 1% 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
	2015	2014	2015	2014	2015	2014	
Non-Depreciable Assets:							
Land	\$ 3,837,515	\$ 3,837,515	\$ 441,374	\$ 441,374	\$ 4,278,889	\$ 4,278,889	\$ -
Construction In Progress	314,421	289,377	-	-	314,421	289,377	25,044
Depreciable Assets:							
Buildings	780,073	821,871	-	-	780,073	821,871	(41,798)
Machinery & Equipment	287,305	269,455	33,145	46,337	320,450	315,792	4,658
Parks & Recreation	669,457	600,601	-	-	669,457	600,601	68,856
Vehicles	186,545	127,306	30,925	38,402	217,470	165,708	51,762
Streets	1,490,035	1,444,897	-	-	1,490,035	1,444,897	45,138
Sewer Distribution	-	-	4,130,219	3,660,093	4,130,219	3,660,093	470,126
Water Distribution	-	-	3,489,013	4,293,722	3,489,013	4,293,722	(804,709)
Water Meters	-	-	45,516	-	45,516	-	45,516
Springs	-	-	10,383	10,818	10,383	10,818	(435)
Total	\$ 7,565,351	\$ 7,391,022	\$ 8,180,575	\$ 8,490,746	\$ 15,745,926	\$ 15,881,768	\$ (135,842)

Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$2,226,969 representing repayments of \$470,006 during the fiscal year ended June 30, 2015. 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
	2015	2014	2015	2014	2015	2014	
Mortgage Payable - Park and Recreation Land	\$ 537,399	\$ 643,101	\$ -	\$ -	\$ 537,399	\$ 643,101	\$ (105,702)
Infrastructure Bonds - Street Expansion	161,000	172,500	-	-	161,000	172,500	(11,500)
Tax Exempt Bonds - Case Loader	14,730	43,083	-	-	14,730	43,083	(28,353)
Infrastructure Bonds - Water Distribution	-	-	227,000	252,000	227,000	252,000	(25,000)
Infrastructure Bonds - Water Distribution	-	-	209,800	308,450	209,800	308,450	(98,650)
Water Quality Loan - WWTP	-	-	1,077,040	1,277,841	1,077,040	1,277,841	(200,801)
Total	\$ 713,129	\$ 858,684	\$ 1,513,840	\$ 1,838,291	\$ 2,226,969	\$ 2,696,975	\$ (470,006)

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. The Town has negotiated an agreement with EmPower Energies to construct a solar array on Remsburg Park, directly adjacent to East WWTP. The solar power generated by this array will provide power to all of the water and wastewater facilities. Not only is this a "green" project, but will also provide the Town with a stable electric cost over the next 20 years.

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, 2015

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 1,621,475	\$ 824,461	\$ 2,445,936
Receivables:			
Customers accounts	-	381,812	381,812
Other	21,781	43,223	65,004
Intercompany balances	(2,932)	2,932	-
Due from other governments	23,794	-	23,794
Prepaid expenses	81,420	29,050	110,470
Capital assets:			
Land	3,837,515	441,374	4,278,889
Other capital assets, net of accumulated depreciation	3,413,415	7,739,201	11,152,616
Construction in progress	314,421	-	314,421
TOTAL ASSETS	9,310,889	9,462,053	18,772,942
DEFERRED OUTFLOW OF RESOURCES	60,610	21,193	81,803
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	9,371,499	9,483,246	18,854,745
LIABILITIES			
Line of credit	-	401,362	401,362
Accounts payable	128,144	66,312	194,456
Accrued operating expenses	38,089	39,260	77,349
Other accrued liabilities	-	50,045	50,045
Current maturities of long-term debt	135,647	333,819	469,466
Net pension liability	298,099	104,232	402,331
Accrued inflow and infiltration liability	-	375,000	375,000
Accrued sludge removal liability	-	85,700	85,700
Long-term debt	577,482	1,180,021	1,757,503
TOTAL LIABILITIES	1,177,461	2,635,751	3,813,212
DEFERRED INFLOW OF RESOURCES	32,629	11,409	44,038
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	1,210,090	2,647,160	3,857,250
NET POSITION			
Invested in capital assets, net of related debt	6,852,222	6,265,372	13,117,594
Unrestricted	1,309,187	570,714	1,879,901
TOTAL NET POSITION	\$ 8,161,409	\$ 6,836,086	\$ 14,997,495

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	PRIMARY GOVERNMENT TOTAL
Primary government:							
Governmental activities:							
General government	\$ 1,140,396	\$ 46,281	\$ -	\$ -	\$ (1,094,115)	\$ -	\$ (1,094,115)
Public safety	368,187	-	-	-	(368,187)	-	(368,187)
Parks and recreation	108,586	1,860	39,700	19,029	(47,997)	-	(47,997)
Public services	841,991	-	24,066	-	(817,925)	-	(817,925)
Depreciation and amortization	326,952	-	-	-	(326,952)	-	(326,952)
Interest	25,997	-	-	-	(25,997)	-	(25,997)
Total governmental activities	2,812,109	48,141	63,766	19,029	(2,681,173)	-	(2,681,173)
Business-type activities:							
Water and sewer utilities	1,500,091	1,306,340	-	-	-	(193,751)	(193,751)
Total business-type activities	1,500,091	1,306,340	-	-	-	(193,751)	(193,751)
Total primary government	\$ 4,312,200	\$ 1,354,481	\$ 63,766	\$ 19,029	(2,681,173)	(193,751)	(2,874,924)
General revenues:							
Taxes							
Property					1,169,795	-	1,169,795
Income					788,153	-	788,153
Highway					137,530	-	137,530
County shared					581,111	-	581,111
Admissions and Amusement					20,856	-	20,856
Other					46,222	-	46,222
Other income					21,909	694,156	716,065
Interest income					154	-	154
Total general revenues					2,765,730	694,156	3,459,886
Change in net position					84,557	500,405	584,962
Restatement, Note 9					(284,108)	(109,604)	(393,712)
Net position - beginning of year					8,360,960	6,445,285	14,806,245
Net position - end of year					\$ 8,161,409	\$ 6,836,086	\$ 14,997,495

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2015

ASSETS

Cash and cash equivalents	\$ 1,621,475
Receivables	21,781
Due from other governments	23,794
Prepaid expenses	81,420

TOTAL ASSETS \$ 1,748,470

LIABILITIES

Accounts payable	\$ 128,144
Accrued operating expenses	38,089
Intercompany balances	2,932

TOTAL LIABILITIES 169,165

FUND BALANCE

Non-spendable	81,420
Committed	430,192
Assigned	99,750
Unassigned	967,943

TOTAL FUND BALANCE 1,579,305

TOTAL LIABILITIES AND FUND BALANCE \$ 1,748,470

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2015

Fund Balance - total governmental funds	\$ 1,579,305
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	7,565,351
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund	(713,129)
Unamortized deferred outflows of resources - pensions	60,610
Unamortized deferred inflows of resources - pensions	(32,629)
Pension liability	<u>(298,099)</u>
Net Position of Governmental Activities	<u>\$ 8,161,409</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

REVENUES

Taxes:

Local	\$ 1,169,795
State shared	946,539
County shared	581,111
Other	46,222
Operating grants	63,766
Capital grants and contributions	19,029
Licenses and permits	46,281
Service charges	1,860
Interest income	154
Other revenues	21,909

Total Revenues	2,896,666
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EXPENDITURES

General government	1,232,107
Public safety	368,187
Parks and recreation	200,434
Public services	1,173,702
Debt service:	
Principal	145,554
Interest	25,997
Other	2

Total Expenditures	3,145,983
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Net change in fund balance	(249,317)
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Fund balance, beginning of year	1,828,622
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Fund balance, end of year	\$ 1,579,305
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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, 2015

Net change in Fund Balance - total governmental funds	\$	(249,317)
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.		174,331
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.		145,554
Net adjustments to deferred inflows and outflows of resources relative to implementation of GASB 68 - pensions		<u>13,989</u>
Change in Net Position of Governmental Funds	\$	<u><u>84,557</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUND (WATER AND SEWER)
June 30, 2015

<u>ASSETS</u>	
Cash and cash equivalents	\$ 824,461
Receivables:	
Customers accounts	381,812
Other	43,223
Prepaid expenses	29,050
Due from general fund	2,932
Capital assets:	
Land	403,196
Other capital assets, net of accumulated depreciation	7,777,379
Deferred outflow of resources	21,193
	9,483,246
 TOTAL ASSETS	 9,483,246
<u>LIABILITIES</u>	
Line of credit	401,362
Accounts payable	66,312
Accrued expenses	39,260
Other accrued liabilities	50,045
Current maturities of long-term debt	333,819
Net pension liability	104,232
Deferred inflow of resources	11,409
Accrued inflow and infiltration liability	375,000
Accrued sludge removal liability	85,700
Long-term debt	1,180,021
	2,647,160
 TOTAL LIABILITIES	 2,647,160
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	6,265,372
Unrestricted	570,714
	6,836,086
 TOTAL NET POSITION	 \$ 6,836,086

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, 2015

OPERATING REVENUES

Charges for services:

Water fees	\$ 557,826
Sewer fees	557,502
Late payment fees	21,311
Water tower cell phone antenna leases	169,701

TOTAL OPERATING REVENUES	1,306,340
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OPERATING EXPENSES

Administrative	198,852
Depreciation and amortization	398,279
Water expenses	268,197
Sewer expenses	567,145

TOTAL OPERATING EXPENSES	1,432,473
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OPERATING INCOME (LOSS)	(126,133)
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NON-OPERATING REVENUES (EXPENSES)

Capital improvement fees	128,598
Connection fees	141,600
Debt service fees	139,024
Improvement fees	60,000
Interest expense	(67,618)
Other non-operating revenues	224,934

TOTAL NON-OPERATING REVENUES (EXPENSES)	626,538
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CHANGE IN NET POSITION	500,405
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RESTATEMENT, NOTE 9	(109,604)
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TOTAL NET POSITION, BEGINNING OF YEAR	6,445,285
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TOTAL NET POSITION, END OF YEAR	\$ 6,836,086
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BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,224,503
Cash paid to suppliers, employees, and professional contractors	<u>(931,630)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>292,873</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(88,108)
Principal payments on notes payable	(324,450)
Interest paid on notes payable	(70,187)
Capital improvement fees	125,748
Debt service fees	129,054
Connection fees	141,600
Improvement fees	60,000
Noncapital financing from the general fund	200,287
Other	<u>20,747</u>
 NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>194,691</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>1,798</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>1,798</u>

INCREASE (DECREASE) IN CASH	489,362
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (net of bank overdraft)	<u>335,099</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 824,461</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, 2015

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$	(126,133)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		398,279
(Increase) decrease in:		
Customer accounts receivable		(42,057)
Other receivables		(42,803)
Other assets		(5,680)
Deferred outflow of resources		(6,486)
Increase (decrease) in:		
Accounts payable		16,222
Accrued operating expenses		8,829
Accrued sludge removal liability		26,250
Accrued inflow and infiltration liability		75,000
Net pension liability		(20,080)
Deferred inflow of resources		11,409
Other accrued liabilities		123
NET CASH USED BY OPERATING ACTIVITIES	\$	<u>292,873</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)

Retirement Plan

Eligible Burgess and Commissioners of Middletown employees may participate in the State Retirement & Pension System of Maryland. For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's retirement plans and additions to/deductions from the retirement plans' fiduciary net position have been determined on the same basis as they are reported by the retirement plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefits and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.).

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (continued)

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.

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 a substantial portion of deposits. As of June 30, 2015, uninsured cash balances totaled \$188,950. 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.

In June 2015, the Supreme Court of the United States affirmed its ruling on docket #13-485 (Comptroller vs. Wynn) regarding income tax credits received by Maryland residents for taxes paid to other states. This ruling could significantly impact future income tax appropriations to the Town. However, as of June 30, 2015, management has been provided no objective basis for which to measure any potential liabilities resulting from

this ruling. Therefore, no liability has been recorded in these financial statements.
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, 2015 is as follows:

	2014	Additions	Reductions	2015
Governmental Activities				
Non-depreciable assets:				
Land	\$ 3,837,515	\$ -	\$ -	\$ 3,837,515
Construction in progress	289,377	34,199	9,155	314,421
Depreciable:				
Buildings and improvements	1,330,873	-	-	1,330,873
Machinery and equipment	699,875	69,773	15,785	753,863
Parks and recreation	782,907	101,813	-	884,720
Vehicles	464,045	98,454	48,094	514,405
Streets	3,099,629	206,197	-	3,305,826
Total	10,504,221	510,436	73,034	10,941,623
Less accumulated depreciation				
Buildings and improvements	509,002	41,798	-	550,800
Machinery and equipment	430,420	51,923	15,785	466,558
Parks and recreation	182,306	32,957	-	215,263
Vehicles	336,739	39,215	48,094	327,860
Streets	1,654,732	161,059	-	1,815,791
Total	3,113,199	\$ 326,952	\$ 63,879	3,376,272
Net book value	<u>\$ 7,391,022</u>			<u>\$ 7,565,351</u>
Business-type Activities				
Non-depreciable assets:				
Land	\$ 441,374	\$ -	\$ -	\$ 441,374
Construction in progress	-	-	-	-
Depreciable:				
Sewer distribution	7,292,799	16,942	-	7,309,741
Water distribution	7,227,822	23,505	-	7,251,327
Water meters	-	45,680	-	45,680
Springs	17,387	-	-	17,387
Equipment	90,516	1,981	-	92,497
Vehicles	123,117	-	-	123,117
Buildings	25,787	-	-	25,787
Total	15,218,802	88,108	-	15,306,910
Less accumulated depreciation				
Sewer distribution	3,632,706	188,022	-	3,820,728
Water distribution	2,934,100	187,008	-	3,121,108
Water meters	-	164	-	164
Springs	6,569	435	-	7,004
Equipment	44,179	15,173	-	59,352
Vehicles	84,715	7,477	-	92,192
Buildings	25,787	-	-	25,787
Total	6,728,056	\$ 398,279	\$ -	7,126,335
Net book value	<u>\$ 8,490,746</u>			<u>\$ 8,180,575</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	\$ 132,936
Parks and recreation	32,957
Streets and alleys	161,059
	<u>\$ 326,952</u>
 <u>Business Type Activities</u>	
Water and sewer utilities	<u>\$ 398,279</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, 2015. 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 2019. Annual lease payments under the lease approximates \$6,000 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 2015 representing one-fifth of the total estimated liability. As of June 30, 2015, the Town has reported the total estimated liability for future inflow and infiltration costs of \$375,000.

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, 2015 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. \$ 537,399

\$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. 14,730

\$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. 161,000

Total Governmental Activities 713,129

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. 227,000

\$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. 209,800

\$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 \$10,435 with final payment due in February 2020; and collateralized by the full faith and credit and unlimited taxing power of the Town. 1,077,040

Total Business-type Activities 1,513,840

Total Long-term Debt \$ 2,226,969

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 7 – Long-term Debt (continued)

<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2015</u>	<u>Balance Due Within One Year</u>
Governmental Activities					
Mortgage Payable	\$ 643,101	\$ -	\$ 105,702	\$ 537,399	\$ 108,916
Infrastructure Series A Bond	172,500	-	11,500	161,000	12,000
Tax Exempt Bond - Loader	43,083	-	28,353	14,730	14,730
Total Governmental Activities	858,684	-	145,555	713,129	135,646
Business-type Activities					
Infrastructure Series A Bond	252,000	-	25,000	227,000	25,500
Infrastructure Series A Bond	308,450	-	98,650	209,800	102,800
Maryland Water Quality Bond	1,277,841	-	200,801	1,077,040	205,520
Total Business-type Activities	1,838,291	-	324,451	1,513,840	333,820
Total Long-term Debt	\$ 2,696,975	\$ -	\$ 470,006	\$ 2,226,969	\$ 469,466

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>
2016	\$ 135,646	\$ 22,256	\$ 333,820	\$ 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	346,528	16,166
2025-2026	19,749	2,267	-	-
	\$ 713,129	\$ 84,267	\$ 1,513,840	\$ 126,069

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2015.

Note 8 – 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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 8 – Retirement Plan (continued)

Contributions

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, 2015 was 10.46% of covered payroll. The Town's contribution to the plan was \$75,893 for the year ended June 30, 2015.

The Town has a responsibility for funding employees' contributions that are members of the Employees' Retirement System of the State of Maryland. Therefore, the Town has been instructed to treat this plan as a cost-sharing multi-employer defined benefit pension plan.

Plan Costs

At June 30, 2015, the Town reported a liability of \$402,331 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on the Town's contributions to the System in relation to total system contributions including direct aid from the State of Maryland. At June 30, 2014, the Town's proportionate share was \$0.0023%.

For the year ended June 30, 2015, the Town recognized pension expense of \$5,770.

At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 5,820	\$ -
Net difference between projected and actual investment earnings	-	44,038
Contributions subsequent to the measurement date	75,983	-
Total	<u>\$ 81,803</u>	<u>\$ 44,038</u>

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2014 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal
- Amortization method – Level Percentage of Payroll, Closed
- Inflation – 2.9%, general, 3.4% wage
- Salary increases – 3.40% to 11.9%, including inflation
- Discount rate – 7.65%
- Investment rate of return – 7.65%
- Mortality – RP-2000 Combined Healthy Mortality Table projected to the year 2025

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 8 – Retirement Plan (continued)

The long-term expected rate of return on pension plan investments was determined using building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the System after considering input from the System's investment consultant and actuary. For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit Opportunity	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	1%	1.40%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. This single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the Town's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

<u>Description</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Discount Rate	6.65%	7.65%	8.65%
Town's Proportionate Share of Pension Liability	\$ 579,810	\$ 402,331	\$ 253,671

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 8 – Retirement Plan (continued)

Pension Plan Fiduciary Net Position

Detailed information about the System's fiduciary's net position is available in a separately-issued System financial report which may be requested by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202 or by calling 410-625-5555.

Note 9 – Change in Accounting Principle

During the year ended June 30, 2015, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension* and related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This pronouncement requires the restatement of the June 30, 2014 net position of the College as shown as follows:

Net Position, June 30, 2014, As Previously Reported	\$ 14,806,245
Cumulative Affect of Application of GASB 68, Net Pension Liability	(446,543)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for Town Contributions made to the Plan During the Fiscal Year Ending June 30, 2014	<u>52,831</u>
Net Position, June 30, 2014, As Restated	<u>\$ 14,412,533</u>

Note 10 – Recent Governmental Accounting Standards Board (GASB) Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). The objectives of this Statement are to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures around fair value measurements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2015.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement established requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposed of providing those pensions. In addition, it established requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provision of Statement No. 67, *Financial and Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions of this Statement are generally effective for fiscal years beginning after June 15, 2015.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Note 10 – Recent Governmental Accounting Standards Board (GASB) Pronouncements (continued)

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement also include requirements to address financial reporting for assets accumulated for purposed of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

The Town has not yet completed the process of evaluating the impact of GASB Statements Nos. 72, 73, 74, 75 and 76 on its financial statements.

Note 11 – Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2015 through November 9, 2015, 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, 2015 through November 9, 2015, 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, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate, net of discounts	\$ 1,096,228	\$ 1,111,603	\$ 15,375
Public utility	9,907	11,609	1,702
Tangible personal property	34,505	38,043	3,538
Penalties and interest	9,241	8,540	(701)
	<u>1,149,881</u>	<u>1,169,795</u>	<u>19,914</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	40,926	20,856	(20,070)
Highway	95,043	137,530	42,487
Income	778,572	788,153	9,581
Police protection	25,835	24,066	(1,769)
	<u>940,376</u>	<u>970,605</u>	<u>30,229</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	<u>581,111</u>	<u>581,111</u>	<u>-</u>
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	1,950	-	(1,950)
Planning and zoning	9,500	41,382	31,882
Traders licenses	4,900	4,899	(1)
	<u>16,350</u>	<u>46,281</u>	<u>29,931</u>
<u>MISCELLANEOUS</u>			
Interest income	-	154	154
State grants	130,405	58,729	(71,676)
Franchise (cable) taxes	48,231	46,222	(2,009)
Pavilion fees	1,900	1,860	(40)
Miscellaneous income	7,500	21,909	14,409
	<u>188,036</u>	<u>128,874</u>	<u>(59,162)</u>
TOTAL REVENUES	<u>\$ 2,875,754</u>	<u>\$ 2,896,666</u>	<u>\$ 20,912</u>

* There were no significant budget amendments made during fiscal year 2015, 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, 2015

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 750	\$ 613	\$ (137)
Communications	3,480	3,127	(353)
Conventions and meetings	9,000	6,403	(2,597)
Dues and subscriptions	7,370	7,525	155
Office supplies and expense	3,600	3,343	(257)
Salaries - commissioners	12,000	12,000	-
	<u>36,200</u>	<u>33,011</u>	<u>(3,189)</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 and other professional services	12,500	28,100	15,600
Legal - development and ordinance	7,500	5,852	(1,648)
	<u>20,000</u>	<u>33,952</u>	<u>13,952</u>
<u>PLANNING AND ZONING</u>			
Salaries	50,182	40,819	(9,363)
Zoning expenses	1,300	11,289	9,989
	<u>51,482</u>	<u>52,108</u>	<u>626</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	-	77,722	77,722
Administrative salaries	196,663	216,763	20,100
Communications	10,167	6,774	(3,393)
Computer expense	22,400	24,355	1,955
Copier lease	-	13,429	13,429
Dues and subscriptions	150	-	(150)
Grant to water and sewer fund	102,740	203,219	100,479
Meetings and conventions	100	132	32
Office supplies and expense	30,401	10,967	(19,434)
Office maintenance and utilities	47,262	32,801	(14,461)
Postage and printing	200	36	(164)
Professional services	3,600	4,845	1,245
	<u>\$ 413,683</u>	<u>\$ 591,043</u>	<u>\$ 177,360</u>

* There were no significant budget amendments made during fiscal year 2015, 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, 2015

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Director salary	\$ 91,107	\$ 91,351	\$ 244
Maintenance salaries	45,417	40,064	(5,353)
Communications	6,797	7,564	767
Dues and subscriptions	-	449	449
Maintenance and repairs	21,174	11,963	(9,211)
Mowing	-	12,047	12,047
Supplies and expense	13,334	10,426	(2,908)
Tools and equipment	3,069	1,288	(1,781)
	<u>180,898</u>	<u>175,152</u>	<u>(5,746)</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	20,000	20,000	-
School safety guard and supplies	17,121	14,812	(2,309)
Community deputy program	326,657	333,374	6,717
	<u>363,778</u>	<u>368,186</u>	<u>4,408</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Resident trash and yard waste	277,613	270,507	(7,106)
	<u>277,613</u>	<u>270,507</u>	<u>(7,106)</u>
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	-	91,849	91,849
Rensburg Park interest	17,847	17,847	-
Rensburg Park loan payments	105,702	105,702	-
Park salaries	45,754	42,320	(3,434)
Park electricity	1,800	2,289	489
Park repairs and maintenance	39,795	40,013	218
Park mowing	25,451	23,964	(1,487)
	<u>236,349</u>	<u>323,984</u>	<u>87,635</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	-	331,712	331,712
Interest	7,418	8,150	732
East Green Street loan payments	11,500	11,500	-
Case Loader loan payments	15,158	28,352	13,194
Maintenance salaries	83,562	76,647	(6,915)
Equipment operations and repairs	10,000	3,135	(6,865)
Mowing	31,744	29,696	(2,048)
Repairs and resurfacing	94,500	166,470	71,970
Signs	-	3,904	3,904
Street lighting	152,400	160,973	8,573
Snow removal	63,000	100,830	37,830
Storm water management	7,050	1,673	(5,377)
Truck repair and operation	25,000	35,615	10,615
	<u>\$ 501,332</u>	<u>\$ 958,657</u>	<u>\$ 457,325</u>

* There were no significant budget amendments made during fiscal year 2015, 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, 2015

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 43,577	\$ 43,720	\$ 143
Town contribution	8,800	10,366	1,566
	<u>52,377</u>	<u>54,086</u>	<u>1,709</u>
<u>MISCELLANEOUS</u>			
MT Historical Society - CIP	5,000	5,000	-
Community events	38,129	37,855	(274)
Donations	100	-	(100)
Insurance - property	12,748	12,986	238
Insurance - employee	114,823	96,741	(18,082)
Insurance - workers compensation	-	15,487	15,487
Miscellaneous	-	4,856	4,856
Payroll taxes	52,753	42,269	(10,484)
Pension	67,363	56,298	(11,065)
Real estate taxes	712	712	-
Travel	2,500	3,436	936
Web page and directory	4,000	3,624	(376)
Other	3,500	-	(3,500)
	<u>301,628</u>	<u>279,264</u>	<u>(22,364)</u>
<u>ELECTION</u>			
Other administrative expenses	-	33	33
	<u>-</u>	<u>33</u>	<u>33</u>
TOTAL EXPENDITURES	<u>2,441,340</u>	<u>3,145,983</u>	<u>704,643</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>434,414</u>	<u>(249,317)</u>	<u>(683,731)</u>

* There were no significant budget amendments made during fiscal year 2015, 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, 2015

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 588,919	\$ 557,826	\$ (31,093)
Sewer revenue	565,791	557,502	(8,289)
Penalties and interest	14,600	21,311	6,711
General fund grant/misc.	102,740	169,701	66,961
TOTAL OPERATING REVENUES	1,272,050	1,306,340	34,290
<u>ADMINISTRATIVE EXPENSES</u>			
Depreciation	-	398,279	398,279
Salaries - office	52,890	43,379	(9,511)
Advertising	500	994	494
Communications	7,100	11,178	4,078
Dues and subscriptions	500	3,342	2,842
Insurance - property	8,000	7,949	(51)
Insurance - worker's compensation	13,868	7,858	(6,010)
Insurance - health	45,836	36,608	(9,228)
Meetings and seminars	250	392	142
Office supplies and expense	12,800	13,490	690
Payroll taxes	19,192	21,477	2,285
Pension	22,143	4,529	(17,614)
Postage	10,222	10,304	82
Professional services - legal	8,500	16,447	7,947
Real estate taxes	292	292	-
Travel	200	-	(200)
Uniforms	2,800	3,719	919
Rain barrel/educational programs	3,150	5,755	2,605
Waterline	33,056	-	(33,056)
TOTAL ADMINISTRATIVE EXPENSES	241,299	585,992	344,693
<u>VEHICLES AND EQUIPMENT</u>			
1999 Truck	3,700	314	(3,386)
2001 Truck	-	76	76
2008 Truck	3,200	1,999	(1,201)
2012 Truck	-	3,216	3,216
2013 Truck	3,400	3,703	303
Miscellaneous Equipment	3,700	-	(3,700)
Bobcat Mini-Excavator	-	1,526	1,526
Case Backhoe	-	305	305
TOTAL VEHICLES AND EQUIPMENT EXPENSES	14,000	11,139	(2,861)
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	138,865	131,501	(7,364)
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	500	-	(500)
Repairs and maintenance	51,650	48,553	(3,097)
Supplies	2,500	3,468	968
Tools and equipment	1,000	933	(67)
Water meters	65,250	-	(65,250)
Water line break repairs	5,000	3,451	(1,549)
TOTAL WATER DISTRIBUTION SYSTEM EXPENSES	\$ 125,900	\$ 56,405	\$ (69,495)

* There were no significant budget amendments made during fiscal year 2015, 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, 2015

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER SOURCES AND TREATMENT</u>			
Electric	\$ 31,370	\$ 24,588	\$ (6,782)
Supplies	2,000	3,568	1,568
Repairs and maintenance	28,650	17,211	(11,439)
Chemicals	17,372	21,672	4,300
Tools and equipment	2,400	1,590	(810)
Testing and analysis	9,000	11,662	2,662
	<u>90,792</u>	<u>80,291</u>	<u>(10,501)</u>
TOTAL WATER PLANT SYSTEM			
	<u>355,557</u>	<u>268,197</u>	<u>(87,360)</u>
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	124,154	120,064	(4,090)
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	22,000	19,518	(2,482)
Brookridge South pumping station	9,700	11,154	1,454
Foxfield pumping station	6,500	6,348	(152)
Sanitary sewer lines and manholes	10,500	17,484	6,984
Inflow and infiltration	75,000	75,000	-
	<u>123,700</u>	<u>129,504</u>	<u>5,804</u>
TOTAL SEWER COLLECTION SYSTEM EXPENSES			
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	39,724	28,330	(11,394)
Electric	33,000	40,211	7,211
Repairs and maintenance	44,100	23,354	(20,746)
Sludge hauling	56,400	61,642	5,242
Supplies	10,500	6,325	(4,175)
Testing and analysis	23,000	25,170	2,170
Tools and equipment	8,400	8,090	(310)
	<u>\$ 215,124</u>	<u>\$ 193,122</u>	<u>\$ (22,002)</u>
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES			

* There were no significant budget amendments made during fiscal year 2015, 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, 2015

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 49,458	\$ 54,073	\$ 4,615
Electric	20,000	20,410	410
Repairs and maintenance	15,450	20,741	5,291
Sludge hauling	22,650	17,250	(5,400)
Supplies	2,500	2,119	(381)
Testing and analysis	8,758	9,106	348
Tools and equipment	1,000	756	(244)
	<u>119,816</u>	<u>124,455</u>	<u>4,639</u>
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES	<u>119,816</u>	<u>124,455</u>	<u>4,639</u>
TOTAL SEWER SYSTEM EXPENSES	<u>582,794</u>	<u>567,145</u>	<u>(15,649)</u>
TOTAL OPERATING EXPENSES	<u>1,193,650</u>	<u>1,432,473</u>	<u>238,823</u>
OPERATING INCOME (LOSS)	<u>78,400</u>	<u>(126,133)</u>	<u>(204,533)</u>
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	-	139,024	139,024
Connection fees	-	141,600	141,600
Improvement fees	-	60,000	60,000
Capital improvement fee	-	128,598	128,598
Grant from general fund	-	203,219	203,219
Miscellaneous income	1,575	5,731	4,156
Capital contributions from developers	-	14,186	14,186
Interest income	-	1,798	1,798
Interest expense	-	(67,618)	(67,618)
	<u>1,575</u>	<u>626,538</u>	<u>624,963</u>
TOTAL OTHER INCOME (EXPENSE)	<u>1,575</u>	<u>626,538</u>	<u>624,963</u>
NET INCOME (LOSS)	<u><u>79,975</u></u>	<u><u>500,405</u></u>	<u><u>420,430</u></u>

* There were no significant budget amendments made during fiscal year 2015, 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, 2015, 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 9, 2015.

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

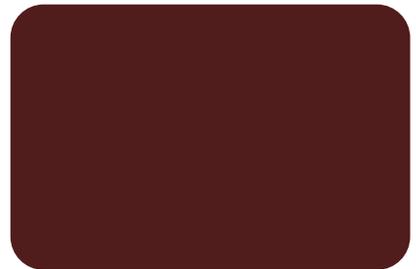
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in 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 9, 2015

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