



BURGESS AND COMMISSIONERS OF MIDDLETOWN



FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

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, 2013, 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.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of June 30, 2013 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, for the year ended June 30, 2013, the Town adopted new accounting guidance issued by the *Governmental Accounting Standards Board (GASB)*. The Town has adopted *GASB No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and has chosen the early adoption of *GASB No. 65 Items Previously Reported as Assets and Liabilities*, as it is directly related to *GASB No. 63* to further define the terms used therein. Our opinion is not modified with respect to this matter.

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 30-36 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 October 30, 2013 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
October 30, 2013

**Burgess and Commissioners of Middletown
Management's Discussion and Analysis
June 30, 2013**

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, 2013. 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 \$14,067,235 (net position) for the fiscal year ending June 30, 2013.
- Total net position is comprised of the following:
 - (1) Invested in capital assets of \$11,981,094 which includes property and equipment, net of accumulated depreciation (\$15,523,006) and net of outstanding debt (\$3,541,914) including the line of credit related to the purchase or construction of capital assets.
 - (2) Unrestricted net position of \$2,086,141 which represents the portion of assets available to maintain the Town's continuing operations and obligations to its citizens and creditors.
- The Town's governmental funds reported total ending unrestricted fund balance of \$2,036,664 this fiscal year. This compares to the prior year ending unrestricted fund balance of \$2,107,548 reflecting a decrease of \$70,884.
- The Town's business-type activity (Water & Sewer) reported a total ending unrestricted fund balance of \$49,477, an increase of \$140,280 from the (\$90,803) deficit balance reported for the prior fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

The *statement of net 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 funds of the Town are divided into two categories: governmental funds and proprietary funds.

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

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

Budgetary comparison statements for the general fund are included as required supplementary information in the financial statements.

- *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.

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 June 30, 2013 is \$14,067,235. This is a \$360,503 increase over the prior year's net position of \$13,706,732. The following table provides a summary of the Town's net position at June 30, 2013 and 2012:

Table 1
Town of Middletown
Fiscal Year Ended June 30,

	Governmental		Business-Type		Totals		Change
	2013	2012	2013	2012	2013	2012	
Assets:							
Current Assets	\$ 2,195,538	\$ 2,195,601	\$ 754,625	\$ 643,333	\$ 2,950,163	\$ 2,838,934	\$ 111,229
Capital Assets	7,035,207	6,938,474	8,487,799	8,725,514	15,523,006	15,663,988	(140,982)
Other Assets	4,355	4,697	23,094	27,877	27,449	32,574	(5,125)
	9,235,100	9,138,772	9,265,518	9,396,724	18,500,618	18,535,496	(34,878)
Deferred Outflows of Resources:							
Prepayment of future expenditures	39,480	39,922	13,741	14,856	53,221	54,778	(1,557)
Total Assets and Deferred Outflows of Resources	9,274,580	9,178,694	9,279,259	9,411,580	18,553,839	18,590,274	(36,435)
Liabilities:							
Current and Other Liabilities	330,845	242,095	1,158,372	1,362,755	1,489,217	1,604,850	(115,633)
Long-Term Liabilities	858,684	929,182	2,131,391	2,346,180	2,990,075	3,275,362	(285,287)
	1,189,529	1,171,277	3,289,763	3,708,935	4,479,292	4,880,212	(400,920)
Deferred Inflows of Resources:							
Deferred cell tower lease revenue	-	-	7,312	3,330	7,312	3,330	3,982
Total Liabilities and Deferred Inflows of Resources	1,189,529	1,171,277	3,297,075	3,712,265	4,486,604	4,883,542	(396,938)
Net Position:							
Invested in capital assets, net of related debt	6,048,387	5,899,869	5,932,707	5,790,118	11,981,094	11,689,987	291,107
Unrestricted	2,036,664	2,107,548	49,477	(90,803)	2,086,141	2,016,745	69,396
Total Net Position	\$ 8,085,051	\$ 8,007,417	\$ 5,982,184	\$ 5,699,315	\$ 14,067,235	\$ 13,706,732	\$ 360,503

Governmental Activities include such assets as the Town Hall, Vehicles and Parks. Business-type Activities include Water and Sewer assets. The largest portion of the Town's net 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, 2013 and 2012. As shown, governmental activities increased the Town's net position by \$77,634 or 22% 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 \$486,570 or 82%.

The Town's revenues from governmental activities totaled \$2,577,140 for the fiscal year ended June 30, 2013. Revenue from taxes represented 96% of total revenue. The major source of revenue for the Town was property taxes of \$1,140,553 comprised of real estate and personal property taxes. State shared taxes of \$733,506 which includes state income and highway user taxes.

The Town's expenditures from governmental activities totaled \$2,499,506 for the fiscal year ended June 30, 2013. Expenditures of the general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,011,399 or 41% and public services the second largest expenditure category at \$699,256 or 28%.

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

	Governmental Activities		Business-Type Activities		Totals		Change
	2013	2012	2013	2012	2013	2012	
Revenues							
General Revenues							
Property Taxes	\$ 1,140,553	\$ 1,294,505	\$ -	\$ -	\$ 1,140,553	\$ 1,294,505	\$ (153,952)
Income Taxes	695,154	725,954	-	-	695,154	725,954	(30,800)
Highway Taxes	38,352	59,110	-	-	38,352	59,110	(20,758)
County Taxes	598,134	332,861	-	-	598,134	332,861	265,273
Other Income	57,185	40,229	519,718	405,637	576,903	445,866	131,037
Investment Income	1,960	1,992	-	-	1,960	1,992	(32)
Program Revenues							
Parks and Recreation	2,030	210,290	-	-	2,030	210,290	(208,260)
Public Services	15,126	15,126	-	-	15,126	15,126	-
Water & Sewer	-	-	1,101,758	1,028,628	1,101,758	1,028,628	73,130
Other Income	28,646	27,891	157,224	151,516	185,870	179,407	6,463
Total Revenues	2,577,140	2,707,958	1,778,700	1,585,781	4,355,840	4,293,739	62,101
Expenditures							
General Government	1,011,399	811,816	-	-	1,011,399	811,816	199,583
Public Safety	415,806	366,220	-	-	415,806	366,220	49,586
Parks and Recreation	73,574	81,235	-	-	73,574	81,235	(7,661)
Public Services	699,256	654,772	-	-	699,256	654,772	44,484
Depreciation and Amortization	265,117	253,720	384,009	377,109	649,126	630,829	18,297
Interest Expense	34,354	53,625	102,331	104,588	136,685	158,213	(21,528)
Water/Sewer Utilities	-	-	1,009,491	997,208	1,009,491	997,208	12,283
Total Expenditures	2,499,506	2,221,388	1,495,831	1,478,905	3,995,337	3,700,293	295,044
Change in Net Position	77,634	486,570	282,869	106,876	360,503	593,446	(232,943)
Beginning Net Position	8,007,417	7,520,847	5,699,315	5,592,439	13,706,732	13,113,286	593,446
Total Net Position	\$ 8,085,051	\$ 8,007,417	\$ 5,982,184	\$ 5,699,315	\$ 14,067,235	\$ 13,706,732	\$ 360,503

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 \$282,869 for the fiscal year ended June 30, 2013. The major source of revenue is utility service charges for water and sewer usage which was \$1,101,758 representing 62% of total revenues.

Financial Analysis of the Town's Fund

Governmental funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year. The general fund is the chief operating fund of the Town. For the fiscal year ended June 30, 2013, the Town's governmental fund decreased by \$70,884 to a balance of \$2,036,664. This amount constitutes the unreserved fund balance, which is generally available for spending at

the Town's discretion. This amount represents 91% of total General Fund expenditures, a measure of the General Funds liquidity.

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, 2013 reported a balance of \$49,477.

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, 2013 was \$15,523,006, net of accumulated 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:

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

Capital Assets at Year-End

The Town's capital assets, net of accumulated depreciation, for the governmental and business-type activities as of June 30, 2013 totaled \$15,523,006 and \$15,663,988, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities decreased 1% from the prior year.

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

	Governmental Activities		Business-Type Activities		Totals		Amount Change
	2013	2012	2013	2012	2013	2012	
Non-Depreciable Assets:							
Land	\$ 3,752,165	\$ 3,752,165	\$ 402,196	\$ 402,196	\$ 4,154,361	\$ 4,154,361	\$ -
Construction In Progress	504,156	346,024	24,265	19,265	528,421	365,289	163,132
Depreciable Assets:							
Buildings	838,266	877,782	217	815	838,483	878,597	(40,114)
Machinery & Equipment	277,172	247,542	27,615	35,037	304,787	282,579	22,208
Parks & Recreation	396,553	409,460	-	-	396,553	409,460	(12,907)
Vehicles	104,364	77,419	46,297	54,400	150,661	131,819	18,842
Streets	1,162,531	1,228,082	-	-	1,162,531	1,228,082	(65,551)
Sewer Distribution	-	-	3,821,341	4,002,635	3,821,341	4,002,635	(181,294)
Water Distribution	-	-	4,154,615	4,199,478	4,154,615	4,199,478	(44,863)
Springs	-	-	11,253	11,688	11,253	11,688	(435)
Total	\$7,035,207	\$6,938,474	\$ 8,487,799	\$8,725,514	\$15,523,006	\$15,663,988	\$(140,982)

Long-Term Debt

As disclosed in the following table, total long-term debt, excluding the line of credit, was \$3,082,914 representing repayments of \$454,226 during the fiscal year ended June 30, 2013. Refer to Note 8 to the Financial Statements for more detailed information.

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

	Governmental		Business-Type		Totals		Change
	2013	2012	2013	2012	2013	2012	
Mortgage Payable - Park and Recreation Land	\$ 745,683	\$ 844,605	\$ -	\$ -	\$ 745,683	\$ 844,605	\$ (98,922)
Infrastructure Bonds - Street Expansion	183,500	194,000	-	-	183,500	194,000	(10,500)
Tax Exempt Bonds - Case Loader	57,638	-	-	-	57,638	-	57,638
Infrastructure Bonds - Water Distribution	-	-	276,000	300,000	276,000	300,000	(24,000)
Infrastructure Bonds - Water Distribution	-	-	403,700	496,350	403,700	496,350	(92,650)
Water Quality Loan - I & I	-	-	-	36,469	-	36,469	(36,469)
Water Quality Loan - WWTP	-	-	1,474,031	1,665,716	1,474,031	1,665,716	(191,685)
Total	\$ 986,821	\$1,038,605	\$2,153,731	\$2,498,535	\$3,140,552	\$3,537,140	\$(396,589)

Economic Environment

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

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, 2013

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 2,150,930	\$ 387,643	\$ 2,538,573
Receivables:			
Taxes	3,238	-	3,238
Customers accounts	-	366,982	366,982
Other	11,075	-	11,075
Due from other governments	30,295	-	30,295
Capital assets:			
Land	3,752,165	403,196	4,155,361
Other capital assets, net of accumulated depreciation	2,778,886	8,079,603	10,858,489
Construction in progress	504,156	5,000	509,156
Bond and loan costs, net of amortization	4,355	23,094	27,449
TOTAL ASSETS	9,235,100	9,265,518	18,500,618
DEFERRED OUTFLOWS OF RESOURCES			
Prepaid insurance and other future expenditures	39,480	13,741	53,221
TOTAL DEFERRED OUTFLOWS OF RESOURCES	39,480	13,741	53,221
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	9,274,580	9,279,259	18,553,839
LIABILITIES			
Accounts payable	184,265	44,623	228,888
Disbursements in excess of available cash	-	329,216	329,216
Line of credit	-	401,362	401,362
Accrued operating expenses	18,443	36,679	55,122
Accrued inflow & infiltration liability	-	225,000	225,000
Accrued sludge removal liability	-	68,100	68,100
Other accrued liabilities	-	31,052	31,052
Long-term debt	986,821	2,153,731	3,140,552
TOTAL LIABILITIES	1,189,529	3,289,763	4,479,292
DEFERRED INFLOWS OF RESOURCES			
Deferred cell tower lease revenue	-	7,312	7,312
TOTAL DEFERRED INFLOWS OF RESOURCES	-	7,312	7,312
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,189,529	3,297,075	4,486,604
NET POSITION			
Invested in capital assets, net of related debt	6,048,387	5,932,707	11,981,094
Unrestricted	2,036,664	49,477	2,086,141
TOTAL NET POSITION	\$ 8,085,051	\$ 5,982,184	\$ 14,067,235

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES
June 30, 2013

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		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary government:							
Governmental activities:							
General government	\$ 1,011,399	\$ 28,646	\$ -	\$ -	\$ (982,753)	\$ -	\$ (982,753)
Public safety	415,806	-	-	-	(415,806)	-	(415,806)
Parks and recreation	73,574	2,030	-	-	(71,544)	-	(71,544)
Public services	699,256	-	15,126	-	(684,130)	-	(684,130)
Depreciation and amortization	265,117	-	-	-	(265,117)	-	(265,117)
Interest	34,354	-	-	-	(34,354)	-	(34,354)
Total governmental activities	<u>2,499,506</u>	<u>30,676</u>	<u>15,126</u>	<u>-</u>	<u>(2,453,704)</u>	<u>-</u>	<u>(2,453,704)</u>
Business-type activities:							
Water and sewer utilities	1,495,831	1,258,982	-	-	-	(236,849)	(236,849)
Total business-type activities	<u>1,495,831</u>	<u>1,258,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(236,849)</u>	<u>(236,849)</u>
Total primary government	<u>\$ 3,995,337</u>	<u>\$ 1,289,658</u>	<u>\$ 15,126</u>	<u>\$ -</u>	<u>(2,453,704)</u>	<u>(236,849)</u>	<u>(2,690,553)</u>
General revenues:							
Taxes							
Property					1,140,553	-	1,140,553
Income					695,154	-	695,154
Highway					38,352	-	38,352
Other					641,354	-	641,354
Other income (expense)					13,965	519,718	533,683
Interest income					1,960	-	1,960
Total general revenues					<u>2,531,338</u>	<u>519,718</u>	<u>3,051,056</u>
Change in net position					77,634	282,869	360,503
Net position - beginning of year					<u>8,007,417</u>	<u>5,699,315</u>	<u>13,706,732</u>
Net position - end of year					<u>\$ 8,085,051</u>	<u>\$ 5,982,184</u>	<u>\$ 14,067,235</u>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2013

<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,150,930
Receivables:	
Taxes	3,238
Other	11,075
Due from other governments	30,295
Other assets	4,354
	2,199,892
TOTAL ASSETS	2,199,892
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Prepaid insurance and other future expenditures	39,480
	39,480
TOTAL DEFERRED OUTFLOWS OF RESOURCES	39,480
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,239,372
<u>LIABILITIES</u>	
Accounts payable	\$ 184,265
Accrued operating expenses	18,443
	202,708
TOTAL LIABILITIES	202,708
<u>FUND BALANCE</u>	
Non-spendable	37,714
Committed	422,474
Assigned	176,400
Unassigned	1,400,076
	2,036,664
TOTAL FUND BALANCE	2,036,664
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,239,372

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2013

	<u>2013</u>
Fund Balance - total governmental funds	\$ 2,036,664
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund	
Governmental capital assets, net	7,035,207
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund	<u>(986,820)</u>
Net Position of Governmental Activities	<u>\$ 8,085,051</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
June 30, 2013

	2013
REVENUES	
Taxes:	
Local	\$ 1,140,553
State shared	733,506
County shared	598,134
Other	43,220
Operating grants	15,126
Licenses and permits	28,646
Service charges	2,030
Interest income	1,960
Other revenues	13,965
	2,577,140
EXPENDITURES	
General government	1,086,693
Public safety	415,806
Parks and recreation	98,259
Public services	960,786
Debt service:	
Principal	109,422
Interest	34,354
Other	342
	2,705,662
Excess of revenues over expenditures	(128,522)
OTHER FINANCING SOURCES	
Long-term debt issued	57,638
	57,638
Net change in fund balance	(70,884)
Fund balance, beginning of year	2,107,548
Fund balance, end of year	\$ 2,036,664

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
June 30, 2013

	2013
Net change in Fund Balance - total governmental funds	\$ (70,884)
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.	96,733
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.	51,785
Change in Net Position of Governmental Funds	\$ 77,634

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUND (WATER AND SEWER)
June 30, 2013

<u>CURRENT ASSETS</u>	
Cash and cash equivalents	\$ 387,643
Receivables:	
Customers accounts	366,982
Capital assets:	
Land	403,196
Other capital assets, net of accumulated depreciation	8,079,603
Construction in progress	5,000
Bond and loan costs, net of amortization	23,094
	9,265,518
 TOTAL ASSETS	 9,265,518
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Prepaid insurance and other future expenditures	13,741
	13,741
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 13,741
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 9,279,259
<u>CURRENT LIABILITIES</u>	
Disbursements in excess of available cash	329,216
Line of credit	401,362
Accounts payable	44,623
Accrued expenses	36,679
Accrued inflow & infiltration liability	225,000
Accrued sludge removal liability	68,100
Other accrued liabilities	31,052
Long-term debt:	
Due within 1 year	315,440
Due in more than 1 year	1,838,291
	3,289,763
 TOTAL LIABILITIES	 3,289,763
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred cell tower lease resources	7,312
	7,312
 TOTAL DEFERRED INFLOWS OF RESOURCES	 7,312
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 3,297,075
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	5,932,707
Unrestricted	49,477
	5,982,184
 TOTAL NET POSITION	 \$ 5,982,184

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, 2013

OPERATING REVENUES

Charges for services:	
Water fees	\$ 544,682
Sewer fees	541,468
Late payment fees	15,608
Water tower cell phone antenna leases	157,224
	1,258,982
TOTAL OPERATING REVENUES	1,258,982

OPERATING EXPENSES

Administrative	186,215
Depreciation and amortization	384,009
Water expenses	259,251
Sewer expenses	564,026
	1,393,501
TOTAL OPERATING EXPENSES	1,393,501
OPERATING INCOME (LOSS)	(134,519)

NON-OPERATING REVENUES (EXPENSES)

Capital improvement fees	107,010
Connection fees	140,000
Debt service fees	136,500
Improvement fees	42,000
Interest expense	(102,331)
Other non-operating revenues	94,209
	417,388
TOTAL NON-OPERATING REVENUES (EXPENSES)	417,388
CHANGE IN NET POSITION	282,869
TOTAL NET POSITION, BEGINNING OF YEAR	5,699,315
TOTAL NET POSITION, END OF YEAR	\$ 5,982,184

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER & SEWER)
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,250,748
Cash paid to suppliers, employees, and professional contractors	<u>(892,850)</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u>357,898</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(141,511)
Principal payments on notes payable	(344,803)
Interest paid on notes payable	(96,527)
Capital improvement fees	106,918
Debt service fees	136,228
Connection fees	140,000
Improvement fees	42,000
Line of credit	(35,500)
Noncapital financing from the general fund	(117,213)
Other	<u>431</u>
 NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(309,977)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of assets	10,500
Interest income	<u>6</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>10,506</u>

INCREASE (DECREASE) IN CASH	58,427
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (net of bank overdraft)	<u>-</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR (net of bank overdraft)	<u><u>\$ 58,427</u></u>
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BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER & SEWER)
FOR THE YEAR ENDED JUNE 30, 2013

	2013
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u>	
<u>PROVIDED BY OPERATING ACTIVITIES</u>	
Operating income (loss)	\$ (134,519)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	384,009
(Increase) decrease in:	
Customer accounts receivable	(21,646)
Other assets	(10,941)
Increase (decrease) in:	
Accounts payable	17,785
Accrued operating expenses	4,010
Accrued sludge removal liability	25,650
Accrued inflow & infiltration liability	75,000
Other accrued liabilities	18,550
 NET CASH USED BY OPERATING ACTIVITIES	 \$ 357,898

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies

Organization

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

Government - Wide Financial Statements

The government-wide financial statements include the statement of net 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 FINANCIAL STATEMENTS

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

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

Fund Types

The following fund types are used by the Town:

Governmental Fund

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund

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

Capital Assets

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

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

Equity Classifications

In the government-wide financial statements, equity is classified as net 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”

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

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

Cash Equivalents

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

Retirement Plan

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

Risk and Uncertainties

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

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

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

The Town adopted Governmental Accounting Standards Board Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as required for years beginning after December 15, 2011. The application of GASB 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. State and local governments enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. Concepts Statement No. 4, *Elements of Financial Statements*, identifies those consumptions or acquisitions as deferred outflows of resources and deferred inflows of resources, respectively, and distinguishes them from assets and liabilities.

Financial Reporting for Deferred Outflows of Resources and Deferred Inflows of Resources - Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities.

Statement of Net Position - The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement of net position should report the residual amount as net position, rather than net assets, proprietary or fiduciary fund balance, or equity. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components—net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted

The Town has also chosen the early adoption of Governmental Accounting Standards Board Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, as recommended, for years beginning after December 15, 2012. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

In accordance with Concepts Statement No. 4 and for the purposes of these financial statements, (1) Deferred Outflows of Resources is defined as a consumption of net assets by the government that is applicable to a future reporting period, (2) Deferred Inflows of Resources is defined as an acquisition of net assets by the government that is applicable to a future reporting period, and (3) Net Position is the residual of all other elements presented in a statement of financial position.

Furthermore, Net position is an element of the statement of financial position and is measured by the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. The amount of net position maintains a specific relationship with the net activity in the resource cash flow statement. The increase or decrease in net position from one period to the next equals the net of all activity reported in the resource flows statement for that period. Also, the total balance of net position at any point in time theoretically equals the cumulative total of all resource flows statement activity from inception. Net position may have a positive or a negative balance.

Note 3 – 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 4 – Assets

Cash and Cash Equivalents

As of June 30, 2013 the Town had checking and savings accounts in various financial institutions, of which, only a portion of the deposits were covered by insurance maintained by the Federal Deposit Insurance Corporation. The banks in which the excess funds are held have pledged securities as collateral for the deposits. In addition, the Town maintains uninsured money market funds with the Maryland Local Government Investment Pool (MLGIP), in the amount of \$205,591 as of June 30, 2013.

Investments

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

Property Taxes Receivable

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Changes in Capital Assets

A summary of changes in capital assets for the year ended June 30, 2013 is as follows:

	2012	Additions	Reductions	2013
<u>Governmental Activities</u>				
Non-depreciable assets	\$ 4,098,188	\$ 158,132	\$ -	\$ 4,256,320
Depreciable				
Buildings and improvements	1,309,195	-	2,302	1,306,893
Machinery & equipment	650,693	75,295	28,500	697,488
Parks and recreation	548,758	7,260	-	556,018
Vehicles	399,911	50,059	-	449,970
Streets	2,597,633	70,765	-	2,668,398
Total	<u>\$ 9,604,378</u>	<u>\$ 361,511</u>	<u>\$ 30,802</u>	<u>\$ 9,935,087</u>
Less accumulated depreciation				
Buildings and improvements	\$ 431,416	\$ 39,513	\$ 2,302	\$ 468,627
Machinery & equipment	403,149	45,666	28,500	420,315
Parks and recreation	139,298	20,167	-	159,465
Vehicles	322,492	23,114	-	345,606
Streets	1,369,552	136,315	-	1,505,867
Total	<u>\$ 2,665,907</u>	<u>\$ 264,775</u>	<u>\$ 30,802</u>	<u>\$ 2,899,880</u>
Net book value	<u>\$ 6,938,471</u>			<u>\$ 7,035,207</u>
	2012	Additions	Reductions	2013
<u>Business-type Activities</u>				
Non-depreciable assets	\$ 441,752	\$ -	\$ -	\$ 441,752
Depreciable				
Sewer distribution	7,263,258	5,178	-	7,268,436
Water distribution	6,817,753	136,336	30,825	6,923,264
Springs	17,387	-	-	17,387
Equipment	48,859	-	5,977	42,882
Vehicles	158,017	-	34,900	123,117
Buildings	25,787	-	-	25,787
Total	<u>\$ 14,772,813</u>	<u>\$ 141,514</u>	<u>\$ 71,702</u>	<u>\$ 14,842,625</u>
Less accumulated depreciation				
Sewer distribution	\$ 3,260,622	\$ 186,472	\$ -	\$ 3,447,094
Water distribution	2,616,968	176,196	30,825	2,762,339
Springs	5,699	435	-	6,134
Equipment	35,421	7,425	5,977	36,869
Vehicles	103,620	8,100	34,900	76,820
Buildings	24,972	598	-	25,570
Total	<u>\$ 6,047,302</u>	<u>\$ 379,226</u>	<u>\$ 71,702</u>	<u>\$ 6,354,826</u>
Net book value	<u>\$ 8,725,511</u>			<u>\$ 8,487,799</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

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

Governmental Activities

General government	\$ 108,292
Parks and recreation	20,168
Streets and alleys	136,315
	<u>\$ 264,775</u>

Business Type Activities

Water and sewer utilities	<u>\$ 379,226</u>
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Note 5 – Compensated Absences

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

Note 6 – Line of Credit

The Town has a \$2,000,000 line of credit bearing interest at LIBOR plus 2.35%. The Town did not borrow any additional funds from the line of credit and made payments of \$35,500 during the year ended June 30, 2013. 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 5th day of December 2013.

Note 7 – Commitments & Contingencies

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

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

The Town has a six year inflow & infiltration program to address rain run-off that enters the sanitary sewer system and ground water that enters the system. The Town has an engineering study conducted approximately every five years to determine the locations where significant inflow and infiltration has occurred. The Town then develops construction contracts to address such areas. Inflow and infiltration occurs over the entire system, but the engineering report determines where the construction should be conducted to achieve maximum cost effectiveness. Management has estimated that the future costs for maintenance of the sanitary sewer system will be approximately \$375,000 and, therefore, has recognized an accrued liability of \$75,000 in 2013 representing one-fifth of the total estimated liability.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Note 8 – Long-term Debt

The Town's long-term debt as of June 30, 2013 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. \$ 745,682

\$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. 57,638

\$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. 183,500

Total Governmental Activities 986,820

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. 276,000

\$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. 403,700

\$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. 1,474,031

Total Business-type Activities 2,153,731

Total Long-term Debt \$ 3,140,551

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

The following is a summary of changes in long-term debt for the year ended June 30, 2013.

Description	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013	Balance Due Within One Year
Governmental Activities					
Mortgage Payable	\$ 844,605	\$ -	\$ 98,923	\$ 745,682	\$ 102,581
Infrastructure Series A Bond	194,000	-	10,500	183,500	11,000
Tax Exempt Bond - Loader	-	57,638	-	57,638	14,555
Total Governmental Activities	\$1,038,605	\$ 57,638	\$ 109,423	\$ 986,820	\$ 128,136
Business-type Activities					
Infrastructure Series A Bond	\$ 300,000	\$ -	\$ 24,000	\$ 276,000	\$ 24,000
Maryland Water Quality Financing Administration Loan	36,469	-	36,469	-	-
Infrastructure Series A Bond	496,350	-	92,650	403,700	95,250
Maryland Water Quality Bond	1,665,716	-	191,685	1,474,031	196,190
Total Business-type Activities	2,498,535	-	344,804	2,153,731	315,440
Total Long-term Debt	\$3,537,140	\$ 57,638	\$ 454,227	\$3,140,551	\$ 443,576

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

	Governmental Activities		Business-type Activities	
	General Obligation		Revenue Bonds and Loans	
	Principal	Interest	Principal	Interest
2014	\$ 128,136	\$ 29,328	\$ 315,440	\$ 59,102
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
2019-2023	273,110	25,777	594,381	31,732
2024-2026	51,000	4,469	-	-
	\$ 986,820	\$ 139,927	\$ 2,153,731	\$ 235,501

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2013.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

Note 9 – 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, 2013 was 10.46% of covered payroll. The Town's contribution to the plan was \$60,417 for the year ended June 30, 2013.

Note 10 – Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2013 through October 30, 2013, 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, 2013 through October 30, 2013, 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, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate, net of discounts	\$ 1,065,363	\$ 1,080,435	\$ 15,072
Public utility	7,850	9,426	1,576
Tangible personal property	27,000	42,120	15,120
Franchise (cable)	36,000	43,219	7,219
Penalties and interest	10,000	8,570	(1,430)
	<u>1,146,213</u>	<u>1,183,770</u>	<u>37,557</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	32,950	36,435	3,485
Highway	38,876	38,352	(524)
Income	675,440	695,154	19,714
Police protection	15,126	15,126	-
	<u>762,392</u>	<u>785,067</u>	<u>22,675</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	561,699	561,699	-
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	1,950	1,990	40
Planning and zoning	9,500	22,237	12,737
Traders licenses	4,000	4,421	421
	<u>15,450</u>	<u>28,648</u>	<u>13,198</u>
<u>MISCELLANEOUS</u>			
Interest income	2,000	1,960	(40)
State grants	121,836	-	(121,836)
Pavilion fees	1,900	2,030	130
Miscellaneous income	2,500	13,966	11,466
	<u>128,236</u>	<u>17,956</u>	<u>(110,280)</u>
<u>OTHER FINANCING SOURCES</u>			
Proceeds from capital lease obligation	-	57,638	57,638
	<u>-</u>	<u>57,638</u>	<u>57,638</u>
TOTAL REVENUES	<u>\$ 2,613,990</u>	<u>\$ 2,634,778</u>	<u>\$ 20,788</u>

* The budget was not amended during fiscal year 2013, 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, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 1,000	\$ 431	\$ (569)
Communications	1,300	3,247	1,947
Conventions and meetings	7,700	11,592	3,892
Dues and subscriptions	7,300	7,312	12
Office supplies and expense	3,000	7,925	4,925
Salaries - commissioners	12,000	12,000	-
	<u>32,300</u>	<u>42,507</u>	<u>10,207</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	12,250	12,250	-
Legal - development & ordinance	7,500	8,002	502
	<u>19,750</u>	<u>20,252</u>	<u>502</u>
<u>PLANNING AND ZONING</u>			
Salaries	36,116	36,045	(71)
Committee compensation	7,800	-	(7,800)
Zoning expenses	1,292	9,887	8,595
	<u>45,208</u>	<u>45,932</u>	<u>724</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	5,200	1,816	(3,384)
Administrative salaries	178,997	189,913	10,916
Amortization	-	342	342
Communications	7,600	7,641	41
Computer expense	16,801	16,250	(551)
Copier lease	-	11,471	11,471
Dues and subscriptions	100	25	(75)
Grant to water & sewer fund	-	11,780	11,780
Meetings and conventions	100	20	(80)
Office supplies and expense	16,271	65,061	48,790
Office maintenance and utilities	52,719	60,320	7,601
Postage and printing	2,500	128	(2,372)
Professional services	3,600	12,024	8,424
	<u>\$ 283,888</u>	<u>\$ 376,791</u>	<u>\$ 92,903</u>

* The budget was not amended during fiscal year 2013, 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, 2013

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Director salary	\$ 81,830	\$ 83,789	\$ 1,959
Maintenance salaries	37,596	34,027	(3,569)
Maintenance capital outlay	-	73,478	73,478
Communications	5,866	6,524	658
Dues and subscriptions	500	431	(69)
Maintenance and repairs	12,488	12,286	(202)
Mowing	11,780	10,640	(1,140)
Supplies and expense	11,100	11,300	200
Tools and equipment	2,200	2,754	554
	<u>163,360</u>	<u>235,229</u>	<u>71,869</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	15,000	65,000	50,000
School safety guard and supplies	14,461	13,844	(617)
Resident trooper program	390,883	336,962	(53,921)
	<u>420,344</u>	<u>415,806</u>	<u>(4,538)</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Collection and disposal fees	235,353	233,740	(1,613)
Eco-bags, yard waste, and recycling	52,584	63,468	10,884
	<u>287,937</u>	<u>297,208</u>	<u>9,271</u>
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	166,472	24,685	(141,787)
Rensburg Park interest	40,124	25,402	(14,722)
Rensburg Park loan payments	92,729	98,923	6,194
Park salaries	40,182	31,210	(8,972)
Park supplies	5,000	-	(5,000)
Park electricity	2,200	1,743	(457)
Park repairs and maintenance	15,900	12,001	(3,899)
Park mowing	38,550	28,620	(9,930)
	<u>401,157</u>	<u>222,584</u>	<u>(178,573)</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	625,600	261,530	(364,070)
East Green Street interest	8,310	8,953	643
East Green Street loan payments	10,500	10,500	-
Maintenance salaries	88,207	75,592	(12,615)
Equipment operations and repairs	7,190	3,837	(3,353)
Mowing	31,744	28,240	(3,504)
Repairs and resurfacing	108,125	76,270	(31,855)
Signs	3,000	3,112	112
Street lighting	153,600	151,802	(1,798)
Snow removal	51,500	36,192	(15,308)
Storm water management	1,500	678	(822)
Truck repair and operation	19,045	32,801	13,756
	<u>\$ 1,108,321</u>	<u>\$ 689,507</u>	<u>\$ (418,814)</u>

* The budget was not amended during fiscal year 2013, 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, 2013

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 24,912	\$ 29,594	\$ 4,682
Community expenses	8,500	8,977	477
	<u>33,412</u>	<u>38,571</u>	<u>5,159</u>
<u>MISCELLANEOUS</u>			
Community events	61,950	51,752	(10,198)
Donations	100	-	(100)
Insurance - property	9,748	12,150	2,402
Insurance - employee	92,581	97,092	4,511
Insurance - workers compensation	13,000	16,042	3,042
Insurance - professional	1,248	-	(1,248)
Miscellaneous	20,280	50,197	29,917
Payroll taxes	40,159	38,007	(2,152)
Pension	69,621	43,167	(26,454)
Real estate taxes	712	753	41
Travel	2,500	1,997	(503)
Web page and directory	5,700	4,118	(1,582)
	<u>317,599</u>	<u>315,275</u>	<u>(2,324)</u>
TOTAL EXPENDITURES	<u>3,119,276</u>	<u>2,705,662</u>	<u>(413,614)</u>
EXCESS OF REVENUE OVER EXPENDITURES	(505,286)	(70,884)	434,402
FUND BALANCE AT BEGINNING OF YEAR	<u>2,107,548</u>	<u>2,107,548</u>	-
FUND BALANCE AT END OF YEAR	<u>\$ 1,602,262</u>	<u>\$ 2,036,664</u>	<u>\$ 434,402</u>

* The budget was not amended during fiscal year 2013, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2013

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 532,440	\$ 544,682	\$ 12,242
Sewer revenue	532,440	541,468	9,028
Grant from general fund	11,780	-	(11,780)
Miscellaneous	2,250	-	(2,250)
Penalties and interest	16,000	15,608	(392)
TOTAL OPERATING REVENUES	1,094,910	1,101,758	6,848
<u>ADMINISTRATIVE EXPENSES</u>			
Amortization	-	4,783	4,783
Depreciation	-	379,226	379,226
Salaries - office	49,168	44,202	(4,966)
Advertising	500	-	(500)
Communications	7,000	7,107	107
Dues and subscriptions	300	415	115
Insurance - property	12,000	7,603	(4,397)
Insurance - worker's compensation	12,000	11,142	(858)
Insurance - health	44,195	46,367	2,172
Meetings and seminars	250	331	81
Office supplies and expense	9,700	8,381	(1,319)
Payroll taxes	18,016	19,971	1,955
Pension	26,459	17,250	(9,209)
Postage	7,500	7,426	(74)
Professional services - legal	3,000	-	(3,000)
Real estate taxes	292	292	-
Travel	250	203	(47)
Uniforms	2,600	2,992	392
Rain barrel/educational programs	4,625	105	(4,520)
TOTAL ADMINISTRATIVE EXPENSES	197,855	557,796	359,941
<u>VEHICLES & EQUIPMENT</u>			
1999 Truck	3,866	1,362	(2,504)
2001 Truck	3,567	3,432	(135)
2008 Truck	3,067	3,331	264
2012 Truck	-	3,690	3,690
Misc. Equipment	3,000	-	(3,000)
Bobcat Mini-Excavator	-	202	202
Case Backhoe	2,000	732	(1,268)
TOTAL VEHICLES & EQUIPMENT EXPENSES	15,500	12,749	(2,751)
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	105,957	109,602	3,645
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	500	353	(147)
Repairs and maintenance	40,600	40,744	144
Supplies	2,000	4,056	2,056
Tools and equipment	1,000	6,407	5,407
Water meters	5,000	-	(5,000)
Water line break repairs	10,000	246	(9,754)
TOTAL WATER DISTRIBUTION SYSTEM EXPENSES	\$ 59,100	\$ 51,806	\$ (7,294)

* The budget was not amended during fiscal year 2013, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2013

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER SOURCES AND TREATMENT</u>			
Electric	\$ 36,325	\$ 27,509	\$ (8,816)
Supplies	1,500	1,666	166
Repairs & maintenance	21,819	32,259	10,440
Chemicals	17,500	24,176	6,676
Tools & equipment	2,450	4,375	1,925
Testing & analysis	8,800	7,857	(943)
TOTAL WATER PLANT SYSTEM	88,394	97,842	9,448
TOTAL WATER SYSTEM EXPENSES	253,451	259,250	5,799
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	103,926	113,488	9,562
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	21,811	11,503	(10,308)
Brookridge South pumping station	7,038	13,703	6,665
Foxfield pumping station	8,637	6,165	(2,472)
Sanitary sewer lines and manholes	22,600	22,850	250
Inflow and infiltration	75,000	75,000	-
TOTAL SEWER COLLECTION SYSTEM EXPENSES	135,086	129,221	(5,865)
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	36,000	40,867	4,867
Electric	33,880	35,844	1,964
Repairs and maintenance	33,400	32,355	(1,045)
Sludge hauling	64,000	66,093	2,093
Supplies	5,000	3,749	(1,251)
Testing and analysis	15,000	20,812	5,812
Tools and equipment	2,500	7,721	5,221
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES	\$ 189,780	\$ 207,441	\$ 17,661

* The budget was not amended during fiscal year 2013, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2013

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 40,500	\$ 50,684	\$ 10,184
Electric	17,411	19,020	1,609
Repairs and maintenance	11,400	3,196	(8,204)
Sludge hauling	17,500	22,959	5,459
Supplies	750	1,987	1,237
Testing and analysis	6,600	8,303	1,703
Tools and equipment	3,100	7,407	4,307
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES	97,261	113,556	16,295
TOTAL SEWER SYSTEM EXPENSES	526,053	563,706	37,653
TOTAL OPERATING EXPENSES	992,859	1,393,501	400,642
OPERATING INCOME (LOSS)	102,051	(291,743)	(393,794)
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	-	136,500	136,500
Connection fees	-	140,000	140,000
Improvement fees	-	42,000	42,000
Capital improvement fee	-	107,010	107,010
Water tower & land leases	-	157,224	157,224
Miscellaneous income	-	89,769	89,769
Capital contributions from developers	-	4,434	4,434
Interest income	-	6	6
Interest expense	-	(102,331)	(102,331)
TOTAL OTHER INCOME (EXPENSE)	-	574,612	574,612
NET INCOME (LOSS)	102,051	282,869	180,818
NET POSITION AT BEGINNING OF YEAR	5,699,315	5,699,315	-
NET POSITION AT END OF YEAR	\$ 5,801,366	\$ 5,982,184	\$ 180,818

* The budget was not amended during fiscal year 2013, 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 30, 2013.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a significant deficiency in internal control, described below:

Finding 2013-1

Significant deficiency in Internal Control over Financial Reporting — Non-Exchange Revenue and Receivable

Criteria: Non-exchange revenue and receivables are recorded as revenue and receivable when earned. Once the funds are received, it should be applied against the associated receivable.

Condition: Presently, the Town records non-exchange revenue when the funds are received, but does not record non-exchange receivables on a monthly basis. During the course of the audit more receivables became known to the Town and were required to be recorded.

Cause: The town is not notified about the majority of these receivables until payment is received, thus making it hard to properly record.

Effect or Potential Effect: Revenue and receivables could potentially go unrecorded at year end, thus causing the financial statements to be misstated.

Recommendation: Have the client create a manual list that includes revenue amounts received after the fiscal year end. This list can then be audited and properly recorded in the financial statements.

Responsible Official's Response: A spreadsheet will be created to show revenue and cash receipts received after the fiscal year end to determine if there are any unrecorded receivables and revenue at year end.

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 Crumbacker Moul & Itell LLC

Hagerstown, Maryland
October 30, 2013