

**BURGESS AND COMMISSIONERS
OF MIDDLETOWN**

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

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, 2016, 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, 2016, 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

As discussed in Note 1 to the financial statements, for the year ended June 30, 2016, the Town adopted new accounting guidance issued by the *Governmental Accounting Standards Board (GASB)*. The Town has adopted GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. 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, the schedule of the Town's proportionate share of the net pension liability, the schedule of the Town's contributions, and budgetary comparison information on pages 3-8 and 34-43 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 January 23, 2017 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
January 23, 2017

The Burgess and Commissioners of Middletown Management's Discussion and Analysis June 30, 2016

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, 2016. 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 \$15,278,716 (net position) as of June 30, 2016.
- Total net position is comprised of the following:
 - (1) Invested in capital assets of \$14,321,673 include property and equipment net of accumulated depreciation (\$11,254,704) and net of outstanding debt (\$2,193,749) including the line of credit related to the purchase or construction of capital assets and net of the related outstanding loan receivable.
 - (2) Unrestricted net position of \$957,043 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 \$1,486,097 this fiscal year. This compares to the prior year ending fund balance of \$1,579,305 reflecting a decrease of \$93,208.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of \$(209,656) compared to \$570,712 reported for the prior fiscal year, a decrease of \$780,368.

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 \$15,278,716. This is a \$281,221 increase over last year's net assets of \$14,997,495. The following table provides a summary of the Town's net assets at June 30, 2016 and 2015:

Table 1
Town of Middletown
Fiscal Years Ended June 30,

	Governmental		Business-Type		Totals		Change
	2016	2015	2016	2015	2016	2015	
Assets:							
Current Assets	\$ 3,517,349	\$ 1,745,537	\$ 6,572,540	\$ 1,281,477	\$ 10,089,889	\$ 3,027,014	\$ 7,062,875
Capital Assets	7,839,007	7,565,352	8,676,416	8,180,575	16,515,423	15,745,927	769,496
Other Assets	-	-	-	-	-	-	-
Total Assets	11,356,356	9,310,889	15,248,956	9,462,052	26,605,312	18,772,941	7,832,371
Deferred Outflows of Resources	98,244	60,610	42,240	21,193	140,484	81,803	58,681
Total Assets and Deferred Outflows of Resources	11,454,600	9,371,499	15,291,196	9,483,245	26,745,796	18,854,744	7,891,052
Liabilities:							
Current and Other Liabilities	663,896	301,879	1,647,648	890,798	2,311,544	1,192,677	1,118,867
Net Pension Liability	409,159	298,099	177,113	104,232	586,272	402,331	183,941
Long-Term Liabilities	2,063,281	577,482	6,469,599	1,640,721	8,532,880	2,218,203	6,314,677
Total Liabilities	3,136,336	1,177,460	8,294,360	2,635,751	11,430,696	3,813,211	7,617,485
Deferred Inflows of Resources	26,908	32,629	9,476	11,409	36,384	44,038	(7,654)
Total Liabilities and Deferred Outflows of Resources	3,163,244	1,210,089	8,303,836	2,647,160	11,467,080	3,857,249	7,609,831
Net Position:							
Invested in capital assets, net of related debt	7,124,657	6,852,223	7,197,016	6,265,373	14,321,673	13,117,596	1,204,077
Unrestricted	1,166,699	1,309,187	(209,656)	570,712	957,043	1,879,899	(922,856)
Total Net Position	\$ 8,291,356	\$ 8,161,410	\$ 6,987,360	\$ 6,836,085	\$ 15,278,716	\$ 14,997,495	\$ 281,221

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, 2016 and 2015. As shown, governmental activities increased the Town's net position by \$129,946 representing 46% 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 \$84,556, or 14%.

The Town's revenues from governmental activities totaled \$3,028,935, for the fiscal year ended June 30, 2016. Revenue from taxes represented 95% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,196,535 and state income and highway user taxes of \$1,071,633.

The Town's expenditures from governmental activities totaled \$2,898,989 for the fiscal year ended June 30, 2016. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,263,148 or 44% and public services the second largest expense at \$660,042 or 23%.

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

	Governmental Activities		Business-Type Activities		Totals		Change
	2016	2015	2016	2015	2016	2015	
Revenues							
General Revenues							
Property Taxes	\$ 1,196,535	\$ 1,169,795	\$ -	\$ -	\$ 1,196,535	\$ 1,169,795	\$ 26,740
Income Taxes	915,506	788,153	-	-	915,506	788,153	127,353
Highway Taxes	156,127	137,530	-	-	156,127	137,530	18,597
County Taxes	565,529	601,967	-	-	565,529	601,967	(36,438)
Other Income	90,530	68,131	483,959	694,156	574,489	762,287	(187,798)
Interest Income	1,562	154	-	-	1,562	154	1,408
Program Revenues							
Public Safety	-	-	-	-	-	-	-
Parks and Recreation	55,944	60,588	-	-	55,944	60,588	(4,644)
Public Services	24,987	24,066	-	-	24,987	24,066	921
Water and Sewer	-	-	1,187,401	1,136,639	1,187,401	1,136,639	50,762
Other Income	22,215	46,281	176,918	169,701	199,133	215,982	(16,849)
Total Revenues	3,028,935	2,896,665	1,848,278	2,000,496	4,877,213	4,897,161	(19,948)
Expenditures							
General Government	1,263,148	1,140,396	-	-	1,263,148	1,140,396	122,752
Public Safety	387,842	368,187	-	-	387,842	368,187	19,655
Parks and Recreation	124,640	108,586	-	-	124,640	108,586	16,054
Public Services	660,042	841,991	-	-	660,042	841,991	(181,949)
Depreciation and Amortization	348,748	326,952	403,349	398,279	752,097	725,231	26,866
Interest Expense	114,569	25,997	177,320	67,618	291,889	93,615	198,274
Water/Sewer Utilities	-	-	1,116,334	1,034,194	1,116,334	1,034,194	82,140
Total Expenditures	2,898,989	2,812,109	1,697,003	1,500,091	4,595,992	4,312,200	283,792
Change in Net Position	129,946	84,556	151,275	500,405	281,221	584,961	(303,740)
Beginning Net Position	8,161,410	8,076,854	6,836,085	6,335,680	14,997,495	14,412,534	584,961
Total Net Position	\$ 8,291,356	\$ 8,161,410	\$ 6,987,360	\$ 6,836,085	\$ 15,278,716	\$ 14,997,495	\$ 281,221

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 \$151,275 for the fiscal year ended June 30, 2016. The major source of revenue is utility service charges for water and sewer which was \$1,187,401 representing 64% 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, 2016, the Town's unassigned governmental fund balance decreased by \$110,812 to a balance of \$857,131. 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, 2016 reported a balance of (\$209,656).

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, 2016 was \$16,515,423, 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 5 to the financial statements.

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

- Begin West Green Street Improvements including sidewalks and gutters
- Construction of Dog Park in Wiles Branch Park
- Bleachers, Picnic Tables and new Tot Lot in Remsberg Park
- Major improvements to Locust Court Waterline
- New Meter Tech Van
- Major Water Meter replacements and installations
- New computers

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, 2016 and 2015 was \$16,515,423 and \$15,745,927, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities increased by 5% 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
	2016	2015	2016	2015	2016	2015	
Non-Depreciable Assets:							
Land	\$ 3,850,860	\$ 3,850,860	\$ 441,374	\$ 441,374	\$ 4,292,234	\$ 4,292,234	\$ -
Construction In Progress	771,922	314,421	333,657	-	1,105,579	314,421	791,158
Depreciable Assets:							
Buildings	744,732	780,073	-	-	744,732	780,073	(35,341)
Machinery & Equipment	273,566	273,961	18,916	33,145	292,482	307,106	(14,624)
Parks & Recreation	706,067	669,457	-	-	706,067	669,457	36,610
Vehicles	142,359	186,545	58,990	30,925	201,349	217,470	(16,121)
Streets	1,349,501	1,490,035	-	-	1,349,501	1,490,035	(140,534)
Sewer Distribution	-	-	3,310,246	3,489,013	3,310,246	3,489,013	(178,767)
Water Distribution	-	-	4,377,343	4,130,219	4,377,343	4,130,219	247,124
Water Meters	-	-	125,940	45,516	125,940	45,516	80,424
Springs	-	-	9,950	10,383	9,950	10,383	(433)
Total	\$ 7,839,007	\$ 7,565,352	\$ 8,676,416	\$ 8,180,575	\$ 16,515,423	\$ 15,745,927	\$ 769,496

Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$8,646,739 representing repayments of \$598,736 during the fiscal year ended June 30, 2016. The Town acquired a \$7 million bond to complete 3 major government-wide projects including improvements to West Green Street,

improvements to the Main Street waterline, and Reservoir Covers. Refer to Notes 4 and 8 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
	2016	2015	2016	2015	2016	2015	
Mortgage Payable - Park and Recreation Land	\$ 428,482	\$ 537,399	\$ -	\$ -	\$ 428,482	\$ 537,399	\$ (108,917)
Infrastructure Bonds - Street Expansion	149,000	161,000	-	-	149,000	161,000	(12,000)
Infrastructure Bonds - Street Improvements	1,650,360	-	-	-	1,650,360	-	1,650,360
Tax Exempt Bonds - Case Loader	14,730	14,730	-	-	14,730	14,730	-
Infrastructure Bonds - Water Distribution	-	-	201,500	227,000	201,500	227,000	(25,500)
Infrastructure Bonds - Water Distribution	-	-	107,000	209,800	107,000	209,800	(102,800)
Infrastructure Bonds - Water Distribution	-	-	4,429,000	-	4,429,000	-	4,429,000
Infrastructure Bonds - Reservoir Liners	-	-	776,640	-	776,640	-	776,640
Water Quality Loan - WWTP	-	-	871,522	1,077,041	871,522	1,077,041	(205,519)
Net unamortized bond premiums and discounts	26,129	-	(7,624)	-	18,505	-	18,505
Total	\$ 2,268,701	\$ 713,129	\$ 6,378,038	\$ 1,513,841	\$ 8,646,739	\$ 2,226,970	\$ 6,419,769

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. This past year the Town has seen a substantial increase in the development of both residential construction and commercial development. The Middletown Glen subdivision has built their model home and is selling homes. The Cross Stone Commons shopping center has started construction of their second pad site with another five businesses.

This is an improvement of development as compared to the last several years with a sluggish economy. The increase in tax revenue will help the Town to maintain the current level of service to our residents while allowing additional funds for infrastructure improvements.

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, 2016

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 1,778,707	\$ 849,104	\$ 2,627,811
Receivables:			
Customers accounts	-	383,567	383,567
Other	5,515	-	5,515
Loan	1,554,352	5,300,000	6,854,352
Intercompany balances	(11,988)	11,988	-
Due from other governments	50,010	-	50,010
Prepaid expenses	140,753	27,881	168,634
Capital assets:			
Land	3,850,860	441,374	4,292,234
Other capital assets, net of accumulated depreciation	3,216,225	7,901,385	11,117,610
Construction in progress	771,922	333,657	1,105,579
TOTAL ASSETS	11,356,356	15,248,956	26,605,312
DEFERRED OUTFLOW OF RESOURCES	98,244	42,240	140,484
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	11,454,600	15,291,196	26,745,796
LIABILITIES			
Disbursements in excess of available cash	-	605,818	605,818
Line of credit	-	401,362	401,362
Accounts payable	388,447	57,883	446,330
Accrued operating expenses	70,029	73,117	143,146
Other accrued liabilities	-	39,079	39,079
Current maturities of long-term debt	205,420	470,389	675,809
Net pension liability	409,159	177,113	586,272
Accrued inflow and infiltration liability	-	450,000	450,000
Accrued sludge removal liability	-	111,950	111,950
Long-term debt	2,063,281	5,907,649	7,970,930
TOTAL LIABILITIES	3,136,336	8,294,360	11,430,696
DEFERRED INFLOW OF RESOURCES	26,908	9,476	36,384
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,163,244	8,303,836	11,467,080
NET POSITION			
Invested in capital assets, net of related debt	7,124,657	7,197,016	14,321,673
Unrestricted	1,166,699	(209,656)	957,043
TOTAL NET POSITION	\$ 8,291,356	\$ 6,987,360	\$ 15,278,716

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Primary government:							
Governmental activities:							
General government	\$ 1,263,148	\$ 22,215	\$ -	\$ -	\$ (1,240,933)	\$ -	\$ (1,240,933)
Public safety	387,842	-	-	-	(387,842)	-	(387,842)
Parks and recreation	124,640	3,158	-	52,786	(68,696)	-	(68,696)
Public services	660,042	-	24,987	-	(635,055)	-	(635,055)
Depreciation and amortization	348,748	-	-	-	(348,748)	-	(348,748)
Interest	114,569	-	-	-	(114,569)	-	(114,569)
Total governmental activities	<u>2,898,989</u>	<u>25,373</u>	<u>24,987</u>	<u>52,786</u>	<u>(2,795,843)</u>	<u>-</u>	<u>(2,795,843)</u>
Business-type activities:							
Water and sewer utilities	<u>1,697,003</u>	<u>1,364,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(332,684)</u>	<u>(332,684)</u>
Total business-type activities	<u>1,697,003</u>	<u>1,364,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(332,684)</u>	<u>(332,684)</u>
Total primary government	<u>\$ 4,595,992</u>	<u>\$ 1,389,692</u>	<u>\$ 24,987</u>	<u>\$ 52,786</u>	<u>(2,795,843)</u>	<u>(332,684)</u>	<u>(3,128,527)</u>
General revenues:							
Taxes							
Property					1,196,535	-	1,196,535
Income					915,506	-	915,506
Highway					156,127	-	156,127
County shared					555,964	-	555,964
Admissions and Amusement					9,565	-	9,565
Other					61,077	-	61,077
Other income					29,453	483,959	513,412
Interest income					1,562	-	1,562
Total general revenues					<u>2,925,789</u>	<u>483,959</u>	<u>3,409,748</u>
Change in net position					129,946	151,275	281,221
Net position - beginning of year					<u>8,161,410</u>	<u>6,836,085</u>	<u>14,997,495</u>
Net position - end of year					<u>\$ 8,291,356</u>	<u>\$ 6,987,360</u>	<u>\$ 15,278,716</u>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,778,707
Receivables	5,515
Due from other governments	50,010
Prepaid expenses	140,753
	140,753
TOTAL ASSETS	\$ 1,974,985
<u>LIABILITIES</u>	
Accounts payable	\$ 388,447
Accrued operating expenses	55,539
Intercompany balances	11,988
	11,988
TOTAL LIABILITIES	455,974
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unavailable revenue - property taxes	5,510
Unavailable revenue - intergovernmental	27,404
	27,404
TOTAL DEFERRED INFLOWS OF RESOURCES	32,914
<u>FUND BALANCE</u>	
Non-spendable	139,570
Committed	459,146
Assigned	30,250
Unassigned	857,131
	857,131
TOTAL FUND BALANCE	1,486,097
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,974,985

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2016

Fund Balance - total governmental funds	\$	1,486,097
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		7,839,007
Accrued interest payable does not require the use of current resources and therefore is not reported as a liability in the governmental fund		(14,490)
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund		(714,349)
Unamortized deferred outflows of resources - pensions		98,244
Unamortized deferred inflows of resources - pensions		(26,908)
Pension liability		(409,159)
Certain amounts of grant revenues and property taxes in the statement of activities do not provide current financial resources and therefore is not recognized as revenue in the governmental fund		
Deferred inflows of resources - unavailable revenue		<u>32,914</u>
Net Position of Governmental Activities	\$	<u><u>8,291,356</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

REVENUES

Taxes:	
Local	\$ 1,190,863
State shared	1,081,198
County shared	555,964
Other	61,077
Operating grants	24,987
Capital grants and contributions	50,086
Licenses and permits	22,215
Service charges	3,158
Interest income	1,562
Other revenues	4,910
	2,996,020
Total Revenues	2,996,020

EXPENDITURES

General government	1,222,158
Public safety	387,842
Parks and recreation	288,933
Public services	1,091,437
Debt service:	
Principal	171,693
Interest	100,079
Other	
	3,262,142
Total Expenditures	3,262,142

OTHER FINANCING SOURCES

Bond proceeds	172,914
	172,914
Net change in fund balance	(93,208)
Fund balance, beginning of year	1,579,305
	1,579,305
Fund balance, end of year	\$ 1,486,097

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, 2016

Net change in Fund Balance - total governmental funds	\$	(93,208)
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.		273,655
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.		(1,221)
Net adjustments to deferred inflows and outflows of resources relative to implementation of GASB 68 - pensions		(67,704)
Certain amounts of grant revenues and property taxes in the statement of activities do not provide current financial resources and are therefore not recognized as revenue in the governmental fund. This is the amount by which deferred inflows of resources increased.		32,914
Accrued interest payable does not require the use of current resources and therefore is not reported as an expense in the governmental fund		(14,490)
Change in Net Position of Governmental Funds	<u>\$</u>	<u>129,946</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUND (WATER AND SEWER)
June 30, 2016

<u>ASSETS</u>	
Cash and cash equivalents	\$ 849,104
Receivables:	
Customers accounts	383,567
Loan	5,300,000
Prepaid expenses	27,881
Due from general fund	11,988
Capital assets:	
Land	441,374
Other capital assets, net of accumulated depreciation	7,901,385
Construction in progress	333,657
Deferred outflow of resources	42,240
	15,291,196
TOTAL ASSETS	15,291,196
<u>LIABILITIES</u>	
Disbursements in excess of available cash	605,818
Line of credit	401,362
Accounts payable	57,883
Accrued expenses	73,117
Other accrued liabilities	39,079
Current maturities of long-term debt	470,389
Net pension liability	177,113
Deferred inflow of resources	9,476
Accrued inflow and infiltration liability	450,000
Accrued sludge removal liability	111,950
Long-term debt	5,907,649
	8,303,836
TOTAL LIABILITIES	8,303,836
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	7,197,016
Unrestricted	(209,656)
	6,987,360
TOTAL NET POSITION	\$ 6,987,360

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, 2016

OPERATING REVENUES

Charges for services:

Water fees	\$ 587,860
Sewer fees	584,783
Late payment fees	14,758
Water tower cell phone antenna leases	176,918
	1,364,319

TOTAL OPERATING REVENUES	1,364,319
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OPERATING EXPENSES

Administrative	220,620
Depreciation and amortization	403,349
Water expenses	290,512
Sewer expenses	605,202
	1,519,683

TOTAL OPERATING EXPENSES	1,519,683
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OPERATING INCOME (LOSS)	(155,364)
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NON-OPERATING REVENUES (EXPENSES)

Capital improvement fees	139,548
Connection fees	75,000
Debt service fees	140,050
Improvement fees	35,000
Interest expense	(177,320)
Other non-operating revenues	94,361
	306,639

TOTAL NON-OPERATING REVENUES (EXPENSES)	306,639
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CHANGE IN NET POSITION	151,275
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TOTAL NET POSITION, BEGINNING OF YEAR	6,836,085
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TOTAL NET POSITION, END OF YEAR	\$ 6,987,360
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BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,409,108
Cash paid to suppliers, employees, and professional contractors	<u>(981,194)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>427,914</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(899,190)
Principal payments on notes payable	(435,804)
Interest paid on notes payable	(134,732)
Capital improvement fees	136,810
Debt service fees	139,580
Connection fees	75,000
Improvement fees	35,000
Noncapital financing from the general fund	70,944
Other	<u>(471)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,012,863)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>3,774</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,774</u>

DECREASE IN CASH	(581,175)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>824,461</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR (net of bank overdraft)	<u>\$ 243,286</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, 2016

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$	(155,364)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		403,349
(Increase) decrease in:		
Customer accounts receivable		4,749
Other receivables		43,223
Other assets		1,169
Deferred outflow of resources		(21,047)
Increase (decrease) in:		
Accounts payable		(8,431)
Accrued operating expenses		(8,730)
Accrued sludge removal liability		26,250
Accrued inflow and infiltration liability		75,000
Net pension liability		72,881
Deferred inflow of resources		(1,933)
Other accrued liabilities		(3,202)
NET CASH USED BY OPERATING ACTIVITIES	\$	<u>427,914</u>

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

In June 2015, GASB approved Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was adopted by the Town for the fiscal year ended June 30, 2016. The application of GASB 76 sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply.

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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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.

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

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.

Loans receivable are related to Series A bonds obtained from the Maryland Department of Housing and Community Development. The total bond is recorded as payable as of the bond's issue date. However, the related bond proceeds are only drawn down as expenditures for the capital projects which the bonds were obtained to finance are made. The portion of the bonds remaining to be drawn down are recorded as loans receivable.

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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.).

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.

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.

3. Risks and Uncertainties

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

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

4. Loan Receivable

During the fiscal year ended June 30, 2016, the Town obtained bond financing for certain infrastructure projects. The funds related to these bonds are held in trust until the related infrastructure expenditures are incurred.

The following is a summary of changes in the loans receivable related to Infrastructure Series A Bonds for the year ended June 30, 2016:

<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Issued</u>	<u>Received</u>	<u>Balance June 30, 2016</u>
Governmental Activities				
Loan receivable - Infrastructure Series A Bond	\$ -	\$ 1,700,000	\$ (145,648)	\$ 1,554,352
Total Governmental Activities	<u>-</u>	<u>1,700,000</u>	<u>(145,648)</u>	<u>1,554,352</u>
Business-type Activities				
Loan receivable - Infrastructure Series A Bond	-	800,000	-	800,000
Loan receivable - Infrastructure Series A Bond	-	4,500,000	-	4,500,000
Total Business-type Activities	<u>-</u>	<u>5,300,000</u>	<u>-</u>	<u>5,300,000</u>
Total Loan Receivable	<u>\$ -</u>	<u>\$ 7,000,000</u>	<u>\$ (145,648)</u>	<u>\$ 6,854,352</u>

5. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

<u>Governmental Activities</u>	<u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>2016</u>
Non-depreciable assets:				
Land	\$ 3,850,860	\$ -	\$ -	\$ 3,850,860
Construction in progress	314,421	476,529	19,028	771,922
Depreciable:				
Buildings and improvements	1,330,873	5,848	-	1,336,721
Machinery and equipment	740,519	56,697	-	797,216
Parks and recreation	884,720	76,505	-	961,225
Vehicles	514,405	-	-	514,405
Streets	3,305,826	25,852	-	3,331,678
Total	<u>10,941,624</u>	<u>641,431</u>	<u>19,028</u>	<u>11,564,027</u>
Less accumulated depreciation				
Buildings and improvements	550,800	41,189	-	591,989
Machinery and equipment	466,558	57,092	-	523,650
Parks and recreation	215,263	39,895	-	255,158
Vehicles	327,860	44,186	-	372,046
Streets	1,815,791	166,386	-	1,982,177
Total	<u>3,376,272</u>	<u>\$ 348,748</u>	<u>\$ -</u>	<u>3,725,020</u>
Net book value	<u>\$ 7,565,352</u>			<u>\$ 7,839,007</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

	2015	Additions	Reductions	2016
<u>Business-type Activities</u>				
Non-depreciable assets:				
Land	\$ 441,374	\$ -	\$ -	\$ 441,374
Construction in progress	-	333,657	-	333,657
Depreciable:				
Sewer distribution	7,309,741	3,123	-	7,312,864
Water distribution	7,251,327	439,434	-	7,690,761
Water meters	45,680	85,563	-	131,243
Springs	17,387	-	-	17,387
Equipment	92,497	-	-	92,497
Vehicles	123,117	37,413	-	160,530
Buildings	25,787	-	-	25,787
Total	15,306,910	899,190	-	16,206,100
Less accumulated depreciation				
Sewer distribution	3,820,728	181,890	-	4,002,618
Water distribution	3,121,108	192,310	-	3,313,418
Water meters	164	5,139	-	5,303
Springs	7,004	433	-	7,437
Equipment	59,352	14,229	-	73,581
Vehicles	92,192	9,348	-	101,540
Buildings	25,787	-	-	25,787
Total	7,126,335	\$ 403,349	\$ -	7,529,684
Net book value	<u>\$ 8,180,575</u>			<u>\$ 8,676,416</u>

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

Governmental Activities

General government	\$ 142,467
Parks and recreation	39,895
Streets and alleys	166,386
	<u>\$ 348,748</u>

Business Type Activities

Water and sewer utilities	<u>\$ 403,349</u>
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6. 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, 2016. 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.

7. Commitments and Contingencies

The Town leases a copier under an operating lease expiring in 2019. Annual lease payments under the lease approximate \$6,000 plus the costs of paper.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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 or six 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 fiscal year 2017. 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 \$450,000 and, therefore, has recognized an accrued liability of \$75,000 in 2016 representing one-sixth of the total estimated liability. As of June 30, 2016, the Town has reported the total estimated liability for future inflow and infiltration costs of \$450,000.

8. Long-term Debt

The Town's long-term debt as of June 30, 2016 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. \$ 428,482

\$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. 149,000

\$1,700,000 Local Government Infrastructure Bonds from Maryland Department of Housing and Community Development payable in semi-annual installments of principal, ranging from \$49,640 in year one to \$115,940 in the final year, plus interest at variable rates ranging from 3.25% to 3.6%; and collateralized by all local government payments, including money, securities, bank deposits, any other investments and receivables. 1,650,360

Total Long-term Debt Principal	2,242,572
Unamortized bond premium	<u>26,129</u>
Total Governmental Activities	<u>2,268,701</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities

<p>\$347,885 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development. The original bonds were refinanced in 2010 when the outstanding balance was \$347,885. Under the terms of the refinanced debt agreement, the bonds are payable in semi-annual installments ranging from \$23,500 to \$32,000, including principal and interest at the rate of .75% increasing to 3.69% with final payment due in May 2023; and collateralized by all revenues, all money held in investments, and all receivables.</p>	201,500
<p>\$1,400,000 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development. The original bonds were refinanced in 2007 when the outstanding balance was \$912,800. Under the terms of the refinanced debt agreement, the bonds are payable in semi-annual installments ranging from \$95,842 to \$109,402, including principal and interest at the rate of 3.85% increasing to 4.1% in May 2016 with final payment due in May 2017; and collateralized by all revenues, all money held in investments, and all receivables.</p>	107,000
<p>\$800,000 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development payable in semi-annual installments ranging from \$23,360 in year one to \$54,560 in the final year with final payment due in April 2035, plus interest at variable rates ranging from 3.25% to 3.6%; and collateralized by all revenues, all money held in investments, and all receivables.</p>	776,640
<p>\$4,500,000 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development payable in semi-annual installments ranging from \$71,000 in year one to \$240,000 in the final year with final payment due in April 2045, plus interest at variable rates ranging from 3.5% to 3.85%; and collateralized by all revenues, all money held in investments, and all receivables.</p>	4,429,000
<p>\$3,700,000 Maryland Water Quality Bond Series 1999. The loan agreement was amended in January 2005 when the outstanding principal balance was \$2.89 million. Under the terms of the amendment, the loan is payable in annual installments of \$230,830 in February, including principal and interest at the rate of 2.35%, and annual payments in August including interest and a fixed administrative fee of \$10,435 with final payment due in February 2020; and collateralized by the full faith and credit and unlimited taxing power of the Town.</p>	871,522
<p>Total Long-term Debt Principal</p>	6,385,662
<p>Net unamortized bond premium and discount</p>	(7,624)
<p>Total Business-type Activities</p>	6,378,038
<p>Total Long-term Debt</p>	<u>\$ 8,646,739</u>

The following is a summary of activity charged to interest expense for the year ended June 30, 2016:

	Governmental Activities	Business-Type Activities	Total
Interest expense	\$ 76,730	\$ 243,794	\$ 320,524
Bond origination fees	38,975	117,910	156,885
Amortization of bond discount (premium)	(1,136)	35	(1,101)
Less: interest capitalized	-	(184,419)	(184,419)
Total Interest Expense	<u>\$ 114,569</u>	<u>\$ 177,320</u>	<u>\$ 291,889</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

Description	Balance	Issued	Retired	Balance	Balance Due
	July 1, 2015			June 30, 2016	Within One Year
Governmental Activities					
Mortgage Payable	\$ 537,399	\$ -	\$ 108,917	\$ 428,482	\$ 112,230
Infrastructure Series A Bond	161,000	-	12,000	149,000	12,500
Infrastructure Series A Bond	-	1,700,000	49,640	1,650,360	65,960
Tax Exempt Bond - Loader	14,730	-	-	14,730	14,730
Total Governmental Activities*	713,129	1,700,000	170,557	2,242,572	205,420
Business-type Activities					
Infrastructure Series A Bond	227,000	-	25,500	201,500	26,000
Infrastructure Series A Bond	209,800	-	102,800	107,000	107,000
Infrastructure Series A Bond	-	800,000	23,360	776,640	31,040
Infrastructure Series A Bond	-	4,500,000	71,000	4,429,000	96,000
Maryland Water Quality Bond	1,077,041	-	205,519	871,522	210,349
Total Business-type Activities*	1,513,841	5,300,000	428,179	6,385,662	470,389
Total Long-term Debt Principal*	\$ 2,226,970	\$7,000,000	\$ 598,736	\$ 8,628,234	\$ 675,809

*Does not include net unamortized bond premiums and discounts. For the year ended June 30, 2016, unamortized bond premiums totaled \$26,129 for governmental activities and \$12,296 for business-type activities; unamortized bond discounts totaled \$0 for governmental activities and \$19,920 for business-type activities.

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
2017	\$ 205,420	\$ 71,794	\$ 470,389	\$ 211,464
2018	194,943	66,922	367,982	200,296
2019	200,661	61,539	376,351	191,867
2020	165,488	55,468	387,000	182,417
2021	86,580	51,868	167,920	171,688
2022-2026	476,920	214,932	818,580	779,357
2027-2035	912,560	168,941	1,737,440	1,018,632
2036-2045	-	-	2,060,000	449,320
	\$ 2,242,572	\$ 691,464	\$ 6,385,662	\$ 3,205,041

Note: Principal amounts do not include net unamortized bond premiums and discounts.

The debt agreements contain various non-financial covenants. The Town received a waiver and extension for submission of its audited financial statements. Otherwise, management believes that the Town is in compliance with all such covenants as of June 30, 2016.

NOTES TO THE FINANCIAL STATEMENTS

9. 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.

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, 2016 was 5.8% of covered payroll. The Town's contribution to the plan was \$71,334 for the year ended June 30, 2016.

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, 2016, the Town reported a liability of \$586,272 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the Town's proportionate share was 0.0028%.

For the year ended June 30, 2016, the Town recognized pension expense of \$188,940.

At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes in assumptions	\$ 27,840	\$ -
Net difference between projected and actual investment earnings	41,310	26,423
Net difference between projected and actual experience	-	9,961
Contributions subsequent to the measurement date	<u>71,334</u>	<u>-</u>
Total	<u>\$ 140,484</u>	<u>\$ 36,384</u>

Deferred inflows and outflows of resources are made up of employer contributions, changes in actuarial assumptions, differences in actual and expected experience, and net differences in the projected and actual

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

investment earnings. Deferred outflows related to employer contributions made subsequent to the plan's actuarial measurement date reduce net pension liability in the fiscal year in which the related actuarial measurement date is used to measure the net pension liability, generally the following fiscal year. Employer contributions included in deferred outflows as of June 30, 2015 reduce net pension liability for the year ended June 30, 2016. The 2015 deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.87 years. The 2014 deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for both 2015 and 2014 is being amortized over a closed five-year period. The following table shows the amortization of the balances:

Year End June 30,	2015 Balance Amortization			2014 Balance Amortization	
	Deferred Outflows		Deferred Inflows	Deferred Outflows	Deferred Inflows
	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings
2017	\$ 10,328	\$ 5,000	\$ (2,045)	\$ 1,164	\$ (8,808)
2018	10,328	5,000	(2,045)	1,164	(8,808)
2019	10,327	5,000	(2,045)	1,164	(8,807)
2020	10,327	5,000	(2,045)	-	-
2021	-	4,348	(1,781)	-	-
	<u>\$ 41,310</u>	<u>\$ 24,348</u>	<u>\$ (9,961)</u>	<u>\$ 3,492</u>	<u>\$ (26,423)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2015 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 – 2.95% general, 3.45% wage
- Salary increases – 3.45% to 10.7%, including inflation
- Discount rate – 7.55%
- Investment rate of return – 7.55%
- Mortality – RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

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:

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed Income	10%	60.00%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.55%. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. 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:

Description	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.55%	7.55%	8.55%
Town's Proportionate Share of Pension Liability	\$ 828,607	\$ 586,272	\$ 385,330

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.

10. Recent Governmental Accounting Standards Board (GASB) Pronouncements

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other*

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The primary objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for fiscal years beginning after June 15, 2016.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for fiscal years beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The Statement addresses certain issues that have been raised with respect to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal years beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing of recognition and measurement of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). Additionally,

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

the Statement establishes disclosure requirements related to those AROs. This Statement is effective for reporting periods beginning after June 15, 2018.

The Town has not yet completed the process of evaluating the impact of GASB Statements Nos. 74, 75, 80, 81, 82, and 83 on its financial statements.

11. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2016 through January 23, 2017, 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, 2016 through January 23, 2017, that require recognition or disclosure in the financial statements.

Required Supplementary Information

BURGESS AND COMMISSIONERS OF MIDDLETOWN

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
MARYLAND STATE RETIREMENT AND PENSION SYSTEMS

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
The Town's proportion of net pension liability*	0.0028211%	0.0022671%
The Town's proportionate share of net pension liability*	\$ 586,272	\$ 402,331
The Town's covered-employee payroll	\$ 907,797	\$ 781,193
The Town's proportionate share of net pension liability as a percentage of its covered-employee payroll	64.58%	51.50%
Plan fiduciary net position as a percentage of total pension liability*	68.78%	71.87%

*Amounts were determined as of the end of the previous fiscal year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 years trend is compiled, the Town presents information for those years for which information is available.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

SCHEDULE OF THE TOWN'S CONTRIBUTIONS -
MARYLAND STATE RETIREMENT AND PENSION SYSTEMS

June 30,	2016	2015
Statutorily required contributions	\$ 52,596	\$ 59,461
Contributions in relation to statutorily required contributions	52,596	59,461
Contribution deficiency (excess)	\$ -	\$ -
The Town's covered-employee payroll	907,797	781,193
Contributions as a percentage of covered-employee payroll	5.79%	7.61%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 years trend is compiled, the Town presents information for those years for which information is available.

1. Changes of Benefit Terms

There were no changes of benefit terms.

2. Changes of Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumptions changes in the 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.70%

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate, net of discounts	\$ 1,139,955	\$ 1,133,834	\$ (6,121)
Tangible personal property	35,540	39,544	4,004
Public utility	10,356	9,400	(956)
Penalties and interest	9,607	8,085	(1,522)
	<u>1,195,458</u>	<u>1,190,863</u>	<u>(4,595)</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	16,500	9,565	(6,935)
Highway	154,758	156,127	1,369
Income	721,465	915,506	194,041
Police protection	24,928	24,987	59
	<u>917,651</u>	<u>1,106,185</u>	<u>188,534</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	555,964	555,964	-
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	1,950	-	(1,950)
Planning and zoning	19,606	17,463	(2,143)
Traders licenses	4,900	4,752	(148)
	<u>26,456</u>	<u>22,215</u>	<u>(4,241)</u>
<u>MISCELLANEOUS</u>			
Interest income	-	1,562	1,562
State grants	147,172	50,086	(97,086)
Franchise (cable) taxes	48,062	61,077	13,015
Pavilion fees	1,900	3,158	1,258
Miscellaneous income	7,500	4,910	(2,590)
	<u>204,634</u>	<u>120,793</u>	<u>(83,841)</u>
TOTAL REVENUES	<u>\$ 2,900,163</u>	<u>\$ 2,996,020</u>	<u>\$ 95,857</u>

* There were no significant budget amendments made during fiscal year 2016, 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, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 750	\$ 2,331	\$ 1,581
Communications	3,480	3,185	(295)
Conventions and meetings	9,000	15,048	6,048
Dues and subscriptions	7,370	7,226	(144)
Office supplies and expense	3,600	7,359	3,759
Salaries - commissioners	12,300	12,900	600
	<u>36,500</u>	<u>48,049</u>	<u>11,549</u>
<u>EXECUTIVE</u>			
Salary - burgess	6,667	7,050	383
	<u>6,667</u>	<u>7,050</u>	<u>383</u>
<u>PROFESSIONAL SERVICES</u>			
Audit fee and other professional services	12,500	13,000	500
Legal - development and ordinance	7,500	9,309	1,809
	<u>20,000</u>	<u>22,309</u>	<u>2,309</u>
<u>PLANNING AND ZONING</u>			
Salaries	48,946	41,672	(7,274)
Zoning expenses	3,109	9,666	6,557
	<u>52,055</u>	<u>51,338</u>	<u>(717)</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	-	26,714	26,714
Administrative salaries	227,019	248,153	21,134
Communications	10,471	6,788	(3,683)
Computer expense	22,600	27,814	5,214
Copier lease	-	15,248	15,248
Dues and subscriptions	150	-	(150)
Grant to water and sewer fund	80,000	80,000	-
Meetings and conventions	100	161	61
Office supplies and expense	27,200	11,097	(16,103)
Office maintenance and utilities	52,680	30,325	(22,355)
Postage and printing	200	16	(184)
Professional services	3,600	5,470	1,870
	<u>\$ 424,020</u>	<u>\$ 451,786</u>	<u>\$ 27,766</u>

* There were no significant budget amendments made during fiscal year 2016, 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, 2016

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Director salary	\$ 93,227	\$ 143,299	\$ 50,072
Maintenance salaries	35,015	44,261	9,246
Communications	9,000	8,830	(170)
Dues and subscriptions	-	2,299	2,299
Maintenance and repairs	27,950	15,514	(12,436)
Mowing	-	11,780	11,780
Supplies and expense	13,000	11,631	(1,369)
Tools and equipment	3,161	1,726	(1,435)
	<u>181,353</u>	<u>239,340</u>	<u>57,987</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	20,000	20,000	-
School safety guard and supplies	17,408	15,694	(1,714)
Community deputy program	365,101	352,149	(12,952)
	<u>402,509</u>	<u>387,843</u>	<u>(14,666)</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Resident trash and yard waste	276,901	267,536	(9,365)
	<u>276,901</u>	<u>267,536</u>	<u>(9,365)</u>
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	-	164,293	164,293
Rensburg Park interest	14,632	14,632	-
Rensburg Park loan payments	108,917	108,917	-
Park salaries	46,911	50,350	3,439
Park electricity	1,800	2,247	447
Park repairs and maintenance	44,100	45,351	1,251
Park mowing	26,215	26,692	477
	<u>242,575</u>	<u>412,482</u>	<u>169,907</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	-	431,395	431,395
Interest	6,941	85,447	78,506
East Green Street loan payments	12,000	12,000	-
West Green Street loan payments	-	50,776	50,776
Case Loader loan payments	15,158	-	(15,158)
Maintenance salaries	93,356	73,748	(19,608)
Equipment operations and repairs	10,000	3,511	(6,489)
Mowing	32,696	31,744	(952)
Repairs and resurfacing	57,300	6,794	(50,506)
Signs	-	5,083	5,083
Street lighting	165,600	167,897	2,297
Snow removal	70,000	72,612	2,612
Storm water management	4,670	2,299	(2,371)
Truck repair and operation	50,700	35,693	(15,007)
	<u>\$ 518,421</u>	<u>\$ 978,999</u>	<u>\$ 460,578</u>

* There were no significant budget amendments made during fiscal year 2016, 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, 2016

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 43,522	\$ 41,716	\$ (1,806)
Town contribution	18,000	10,970	(7,030)
	<u>61,522</u>	<u>52,686</u>	<u>(8,836)</u>
<u>MISCELLANEOUS</u>			
MT Historical Society - CIP	5,000	5,000	-
Community events	19,750	51,772	32,022
Donations	100	1,000	900
Insurance - property	13,866	13,423	(443)
Insurance - employee	118,839	122,055	3,216
Insurance - workers compensation	-	14,456	14,456
Miscellaneous	-	12,688	12,688
Payroll taxes	54,257	54,019	(238)
Pension	65,725	49,784	(15,941)
Real estate taxes	1,242	800	(442)
Travel	2,783	1,957	(826)
Web page and directory	5,000	15,097	10,097
Other	3,500	-	(3,500)
	<u>290,062</u>	<u>342,051</u>	<u>51,989</u>
<u>ELECTION</u>			
Clerk fees	450	-	(450)
Other administrative expenses	250	673	423
	<u>700</u>	<u>673</u>	<u>(27)</u>
TOTAL EXPENDITURES	<u>2,513,285</u>	<u>3,262,142</u>	<u>748,857</u>
<u>OTHER FINANCING SOURCES</u>			
Bond proceeds	-	172,914	172,914
EXCESS OF REVENUE OVER EXPENDITURES	<u>\$ 386,878</u>	<u>\$ (93,208)</u>	<u>\$ (480,086)</u>

* There were no significant budget amendments made during fiscal year 2016, 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, 2016

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 594,558	\$ 587,860	\$ (6,698)
Sewer revenue	596,089	584,783	(11,306)
Penalties and interest	15,038	14,758	(280)
General fund grant/misc.	80,000	176,918	96,918
TOTAL OPERATING REVENUES	1,285,685	1,364,319	78,634
<u>ADMINISTRATIVE EXPENSES</u>			
Depreciation	-	403,349	403,349
Salaries - office	50,907	36,631	(14,276)
Advertising	500	305	(195)
Communications	7,500	10,748	3,248
Dues and subscriptions	500	50	(450)
Insurance - property	8,500	9,917	1,417
Insurance - worker's compensation	8,214	7,287	(927)
Insurance - health	53,824	19,348	(34,476)
Meetings and seminars	500	350	(150)
Office supplies and expense	12,000	10,761	(1,239)
Payroll taxes	24,559	24,113	(446)
Pension	23,678	71,451	47,773
Postage	9,280	9,226	(54)
Professional services - legal	2,000	2,512	512
Real estate taxes	292	292	-
Travel	200	-	(200)
Uniforms	998	3,770	2,772
Rain barrel/educational programs	2,500	1,600	(900)
Waterline	32,979	-	(32,979)
TOTAL ADMINISTRATIVE EXPENSES	238,931	611,710	372,779
<u>VEHICLES AND EQUIPMENT</u>			
1999 Truck	3,700	-	(3,700)
2001 Truck	-	303	303
2008 Truck	3,200	2,710	(490)
2012 Truck	-	2,943	2,943
2013 Truck	3,400	1,588	(1,812)
2015 Truck	3,700	3,744	44
Miscellaneous Equipment	7,000	-	(7,000)
Bobcat Mini-Excavator	-	442	442
Case Backhoe	-	529	529
TOTAL VEHICLES AND EQUIPMENT EXPENSES	21,000	12,259	(8,741)
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	133,411	150,384	16,973
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	500	233	(267)
Repairs and maintenance	70,950	44,802	(26,148)
Supplies	3,200	8,185	4,985
Tools and equipment	4,330	1,660	(2,670)
Water meters	65,250	-	(65,250)
Water line break repairs	5,000	-	(5,000)
TOTAL WATER DISTRIBUTION SYSTEM EXPENSES	\$ 149,230	\$ 54,880	\$ (94,350)

* There were no significant budget amendments made during fiscal year 2016, 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, 2016

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER SOURCES AND TREATMENT</u>			
Electric	\$ 26,900	\$ 23,349	\$ (3,551)
Supplies	2,000	1,492	(508)
Repairs and maintenance	27,350	27,112	(238)
Chemicals	18,226	22,512	4,286
Tools and equipment	2,400	-	(2,400)
Testing and analysis	12,988	10,783	(2,205)
	<u>89,864</u>	<u>85,248</u>	<u>(4,616)</u>
TOTAL WATER PLANT SYSTEM			
	<u>372,505</u>	<u>290,512</u>	<u>(81,993)</u>
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	124,358	128,101	3,743
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	20,000	34,851	14,851
Brookridge South pumping station	10,000	10,465	465
Foxfield pumping station	6,500	6,973	473
Sanitary sewer lines and manholes	23,952	45,670	21,718
Inflow and infiltration	75,000	75,000	-
	<u>135,452</u>	<u>172,959</u>	<u>37,507</u>
TOTAL SEWER COLLECTION SYSTEM EXPENSES			
	<u>214,536</u>	<u>185,218</u>	<u>(29,318)</u>
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	40,844	31,766	(9,078)
Electric	33,279	28,141	(5,138)
Repairs and maintenance	35,357	28,731	(6,626)
Sludge hauling	57,000	59,432	2,432
Supplies	5,469	7,069	1,600
Testing and analysis	34,187	26,125	(8,062)
Tools and equipment	8,400	3,954	(4,446)
	<u>214,536</u>	<u>185,218</u>	<u>(29,318)</u>
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES			

* There were no significant budget amendments made during fiscal year 2016, 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, 2016

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 61,258	\$ 54,389	\$ (6,869)
Electric	17,934	22,680	4,746
Repairs and maintenance	11,750	9,796	(1,954)
Sludge hauling	22,650	17,250	(5,400)
Supplies	2,500	2,380	(120)
Testing and analysis	10,459	9,831	(628)
Tools and equipment	1,000	2,598	1,598
	<u>127,551</u>	<u>118,924</u>	<u>(8,627)</u>
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES			
	<u>601,897</u>	<u>605,202</u>	<u>3,305</u>
TOTAL SEWER SYSTEM EXPENSES			
	<u>1,234,333</u>	<u>1,519,683</u>	<u>285,350</u>
TOTAL OPERATING EXPENSES			
	<u>51,352</u>	<u>(155,364)</u>	<u>(206,716)</u>
OPERATING INCOME (LOSS)			
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	-	140,050	140,050
Connection fees	-	75,000	75,000
Improvement fees	-	35,000	35,000
Capital improvement fee	-	139,548	139,548
Grant from general fund	-	80,000	80,000
Miscellaneous income	1,575	5,573	3,998
Capital contributions from developers	-	5,014	5,014
Interest income	-	3,774	3,774
Interest expense	-	(177,320)	(177,320)
	<u>1,575</u>	<u>306,639</u>	<u>305,064</u>
TOTAL OTHER INCOME (EXPENSE)			
	<u>\$ 52,927</u>	<u>\$ 151,275</u>	<u>\$ 98,348</u>
NET INCOME (LOSS)			

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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, 2016, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated January 23, 2017.

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 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 certain deficiencies in internal control described below (2016-1) that we consider to be significant deficiencies.

Finding 2016-1

Significant Deficiency in Internal Control over Financial Reporting – Missing Journal Entry Support

Criteria: Retention of supporting documentation with related approvals serves as an important

accounting record and facilitates future review as well as provides additional insight for others to verify and confirm past adjustments.

Condition: We noted that the support and approval for six of the twenty-five journal entry transactions selected for testing could not be located.

Effect or Potential Effect: Without sufficient supporting documentation and related approvals, the risk significantly increases that journal entry errors could occur and not be detected on a timely basis, resulting in material misstatements in the general ledger.

Cause: There could be numerous reasons the support could not be located:

- Failure of those who removed records from the files to indicate who took the record.
- Failure to return the record to the files.
- Misfiling the record in the incorrect month or fiscal year.

Recommendation: The Town should retain all supporting documentation with related approvals to support all journal entries.

Responsible Official's Response: The Town will retain all supporting documentation with related approvals to support all journal entries.

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*.

The Town's Response to Findings

The Town's response to the findings identified in our audit are described previously. The Town's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
January 23, 2017

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