

**BURGESS AND COMMISSIONERS
OF MIDDLETOWN**

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

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, 2017, 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, 2017, 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, 2017, the Town adopted new accounting guidance issued by the *Governmental Accounting Standards Board (GASB)*. The Town has adopted GASB No. 82, *Pension Issues: an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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 October 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
October 23, 2017

**The Burgess and Commissioners of Middletown
Management's Discussion and Analysis
June 30, 2017**

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, 2017. 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 \$16,152,286 (net position) as of June 30, 2017.
- Total net position is comprised of the following:
 - (1) Invested in capital assets of \$15,092,410 include property and equipment net of accumulated depreciation (\$18,882,677) and net of outstanding debt (\$3,790,267) 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 \$1,059,876 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 \$1,447,365 this fiscal year. This compares to the prior year ending fund balance of \$1,486,097 reflecting a decrease of \$38,732.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of \$(32,515) compared to \$(209,656) reported for the prior fiscal year, an increase of \$177,141.

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 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 \$16,152,286. This is a \$873,570 increase over last year's net assets of \$15,278,716. The following table provides a summary of the Town's net assets at June 30, 2017 and 2016:

Table 1
Town of Middletown
Fiscal Years Ended June 30,

	Governmental		Business-Type		Totals		Change
	2017	2016	2017	2016	2017	2016	
Assets:							
Current Assets	\$ 1,882,845	\$ 3,517,349	\$ 5,502,203	\$ 5,966,723	\$ 7,385,048	\$ 9,484,072	\$ (2,099,024)
Capital Assets	9,954,418	7,839,007	8,928,259	8,676,416	18,882,677	16,515,423	2,367,254
Other Assets	-	-	-	-	-	-	-
Total Assets	11,837,263	11,356,356	14,430,462	14,643,139	26,267,725	25,999,495	268,230
Deferred Outflows of Resources	111,942	98,244	51,490	42,240	163,432	140,484	22,948
Total Assets and Deferred Outflows of Resources	11,949,205	11,454,600	14,481,952	14,685,379	26,431,157	26,139,979	291,178
Liabilities:							
Current and Other Liabilities	553,384	663,896	1,093,425	1,041,831	1,646,809	1,705,727	(58,918)
Net Pension Liability	428,914	409,159	208,101	177,113	637,015	586,272	50,743
Long-Term Liabilities	2,593,029	2,063,281	5,370,697	6,469,599	7,963,726	8,532,880	(569,154)
Total Liabilities	3,575,327	3,136,336	6,672,223	7,688,543	10,247,550	10,824,879	(577,329)
Deferred Inflows of Resources	23,499	26,908	7,822	9,476	31,321	36,384	(5,063)
Total Liabilities and Deferred Outflows of Resources	3,598,826	3,163,244	6,680,045	7,698,019	10,278,871	10,861,263	(582,392)
Net Position:							
Invested in capital assets, net of related debt	7,257,988	7,124,657	7,834,422	7,197,016	15,092,410	14,321,673	770,737
Unrestricted	1,092,391	1,166,699	(32,515)	(209,656)	1,059,876	957,043	102,833
Total Net Position	\$ 8,350,379	\$ 8,291,356	\$ 7,801,907	\$ 6,987,360	\$ 16,152,286	\$ 15,278,716	\$ 873,570

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.

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, unrestricted 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, 2017, the Town's unassigned governmental fund balance increased by \$19,429 to a balance of \$876,550. 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, 2017 reported a balance of (\$32,515).

Governmental Activities

Table 2 shows the Town's revenue and expenses of the governmental and business-type activities for the years ended June 30, 2017 and 2016. As shown, governmental activities increased the Town's net position by \$59,023 representing 7% 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 \$129,946, or 46%.

The Town's revenues from governmental activities totaled \$3,066,187, for the fiscal year ended June 30, 2017. Revenue from taxes represented 95% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,268,141, state income and highway user taxes of \$1,034,595 and county taxes of \$598,234.

The Town's expenditures from governmental activities totaled \$3,007,164 for the fiscal year ended June 30, 2017. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,227,400 or 41% and public services the second largest expense at \$753,619 or 25%.

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 \$814,547 for the fiscal year ended June 30, 2017. The major source of revenue is utility service charges for water and sewer which was \$1,212,150 representing 52% of total revenues.

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

	Governmental Activities		Business-Type Activities		Totals		Change
	2017	2016	2017	2016	2017	2016	
Revenues							
General Revenues							
Property Taxes	\$ 1,268,141	\$ 1,196,535	\$ -	\$ -	\$ 1,268,141	\$ 1,196,535	\$ 71,606
Income Taxes	880,538	915,506	-	-	880,538	915,506	(34,968)
Highway Taxes	154,057	156,127	-	-	154,057	156,127	(2,070)
County Taxes	598,234	565,529	-	-	598,234	565,529	32,705
Other Income	56,326	90,530	936,977	483,958	993,303	574,488	418,815
Interest Income	17,050	1,562	-	-	17,050	1,562	15,488
Program Revenues							
Public Safety	-	-	-	-	-	-	-
Parks and Recreation	40,315	55,944	-	-	40,315	55,944	(15,629)
Public Services	26,320	24,987	-	-	26,320	24,987	1,333
Water and Sewer	-	-	1,212,150	1,187,400	1,212,150	1,187,400	24,750
Other Income	25,206	22,215	183,496	176,919	208,702	199,134	9,568
Total Revenues	3,066,187	3,028,935	2,332,623	1,848,277	5,398,810	4,877,212	521,598
Expenditures							
General Government	1,227,400	1,263,148	-	-	1,227,400	1,263,148	(35,748)
Public Safety	404,828	387,842	-	-	404,828	387,842	16,986
Parks and Recreation	145,774	124,640	-	-	145,774	124,640	21,134
Public Services	753,619	660,042	-	-	753,619	660,042	93,577
Depreciation and Amortization	335,009	348,748	422,411	403,349	757,420	752,097	5,323
Interest Expense	140,534	114,569	32,459	177,320	172,993	291,889	(118,896)
Water/Sewer Utilities	-	-	1,063,206	1,116,333	1,063,206	1,116,333	(53,127)
Total Expenditures	3,007,164	2,898,989	1,518,076	1,697,002	4,525,240	4,595,991	(70,751)
Change in Net Position	59,023	129,946	814,547	151,275	873,570	281,221	592,349
Beginning Net Position	8,291,356	8,161,410	6,987,360	6,836,085	15,278,716	14,997,495	281,221
Total Net Position	\$ 8,350,379	\$ 8,291,356	\$ 7,801,907	\$ 6,987,360	\$ 16,152,286	\$ 15,278,716	\$ 873,570

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, 2017 was \$18,882,677, 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:

- Completed over \$2.5 million in improvements to West Green Street including sidewalks and gutters
- Playground and pavilion additions to Memorial Park and Wiles Branch Park
- Purchase of a new maintenance truck and snow plow package
- Major water meter replacements and installations
- Several improvements to Town Hall including new carpet, cabinets, bathroom upgrades, new door and blinds.
- New iron and manganese removal system
- Pump rebuild at the Booster Station

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, 2017 and 2016 was \$18,882,677 and \$16,515,423, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities increased by 14% 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
	2017	2016	2017	2016	2017	2016	
Non-Depreciable Assets:							
Land	\$ 3,850,860	\$ 3,850,860	\$ 441,374	\$ 441,374	\$ 4,292,234	\$ 4,292,234	\$ -
Construction In Progress	122,493	771,922	676,083	333,657	798,576	1,105,579	(307,003)
Depreciable Assets:							
Buildings	730,062	744,732	7,900	-	737,962	744,732	(6,770)
Machinery & Equipment	350,893	273,566	4,689	18,916	355,582	292,482	63,100
Parks & Recreation	684,656	706,067	-	-	684,656	706,067	(21,411)
Vehicles	160,494	142,359	49,643	58,990	210,137	201,349	8,788
Streets	4,054,960	1,349,501	-	-	4,054,960	1,349,501	2,705,459
Sewer Distribution	-	-	3,145,169	3,310,246	3,145,169	3,310,246	(165,077)
Water Distribution	-	-	4,395,069	4,377,343	4,395,069	4,377,343	17,726
Water Meters	-	-	198,817	125,940	198,817	125,940	72,877
Springs	-	-	9,515	9,950	9,515	9,950	(435)
Total	\$ 9,954,418	\$ 7,839,007	\$ 8,928,259	\$ 8,676,416	\$ 18,882,677	\$ 16,515,423	\$ 2,367,254

Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$7,969,608 representing repayments of \$677,131 during the fiscal year ended June 30, 2017. The Town acquired a \$7 million

bond in FY2016 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, 8, and 10 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
	2017	2016	2017	2016	2017	2016	
Mortgage Payable - Park and Recreation Land	\$ 316,252	\$ 428,482	\$ -	\$ -	\$ 316,252	\$ 428,482	\$ (112,230)
Infrastructure Bonds - Street Expansion	136,500	149,000	-	-	136,500	149,000	(12,500)
Infrastructure Bonds - Street Improvements	2,330,000	1,650,360	-	-	2,330,000	1,650,360	679,640
Tax Exempt Bonds - Case Loader	-	14,730	-	-	-	14,730	(14,730)
Infrastructure Bonds - Water Distribution	-	-	175,500	201,500	175,500	201,500	(26,000)
Infrastructure Bonds - Water Distribution	-	-	-	107,000	-	107,000	(107,000)
Infrastructure Bonds - Water Distribution	-	-	4,333,000	4,429,000	4,333,000	4,429,000	(96,000)
Infrastructure Bonds - Reservoir Liners	-	-	-	776,640	-	776,640	(776,640)
Water Quality Loan - WWTP	-	-	661,173	871,522	661,173	871,522	(210,349)
Net unamortized bond premiums and discounts	36,420	26,129	(19,237)	(7,624)	17,183	18,505	(1,322)
Total	\$ 2,819,172	\$ 2,268,701	\$ 5,150,436	\$ 6,378,038	\$ 7,969,608	\$ 8,646,739	\$ (677,131)

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, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 1,069,041	\$ 1,228,255	\$ 2,297,296
Receivables:			
Customers accounts	-	389,073	389,073
Other	9,407	-	9,407
Loan	122,742	4,426,913	4,549,655
Intercompany balances	563,529	(563,529)	-
Due from other governments	38,343	-	38,343
Prepaid expenses	79,783	21,491	101,274
Capital assets:			
Land	3,850,860	441,374	4,292,234
Other capital assets, net of accumulated depreciation	5,981,065	7,810,802	13,791,867
Construction in progress	122,493	676,083	798,576
TOTAL ASSETS	11,837,263	14,430,462	26,267,725
DEFERRED OUTFLOW OF RESOURCES	111,942	51,490	163,432
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	11,949,205	14,481,952	26,431,157
LIABILITIES			
Line of credit	-	370,314	370,314
Accounts payable	280,765	317,086	597,851
Accrued operating expenses	46,476	65,243	111,719
Other accrued liabilities	-	4,000	4,000
Current maturities of long-term debt	226,143	336,782	562,925
Net pension liability	428,914	208,101	637,015
Accrued inflow and infiltration liability	-	418,843	418,843
Accrued sludge removal liability	-	138,200	138,200
Long-term debt	2,593,029	4,813,654	7,406,683
TOTAL LIABILITIES	3,575,327	6,672,223	10,247,550
DEFERRED INFLOW OF RESOURCES	23,499	7,822	31,321
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	3,598,826	6,680,045	10,278,871
NET POSITION			
Invested in capital assets, net of related debt	7,257,988	7,834,422	15,092,410
Unrestricted	1,092,391	(32,515)	1,059,876
TOTAL NET POSITION	\$ 8,350,379	\$ 7,801,907	\$ 16,152,286

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

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	\$ 1,227,400	\$ 25,206	\$ -	\$ -	\$ (1,202,194)	\$ -	\$ (1,202,194)
Public safety	404,828	-	-	-	(404,828)	-	(404,828)
Parks and recreation	145,774	4,315	8,000	28,000	(105,459)	-	(105,459)
Public services	753,619	-	26,320	-	(727,299)	-	(727,299)
Depreciation and amortization	335,009	-	-	-	(335,009)	-	(335,009)
Interest	140,534	-	-	-	(140,534)	-	(140,534)
Total governmental activities	3,007,164	29,521	34,320	28,000	(2,915,323)	-	(2,915,323)
Business-type activities:							
Water and sewer utilities	1,518,076	1,395,646	-	-	-	(122,430)	(122,430)
Total business-type activities	1,518,076	1,395,646	-	-	-	(122,430)	(122,430)
Total primary government	\$ 4,525,240	\$ 1,425,167	\$ 34,320	\$ 28,000	(2,915,323)	(122,430)	(3,037,753)
General revenues:							
Taxes							
Property					1,268,141	-	1,268,141
Income					880,538	-	880,538
Highway					154,057	-	154,057
County shared					566,687	-	566,687
Admissions and Amusement					31,547	-	31,547
Other					50,981	-	50,981
Other income					5,345	936,977	942,322
Interest income					17,050	-	17,050
Total general revenues					2,974,346	936,977	3,911,323
Change in net position					59,023	814,547	873,570
Net position - beginning of year					8,291,356	6,987,360	15,278,716
Net position - end of year					\$ 8,350,379	\$ 7,801,907	\$ 16,152,286

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,069,041
Receivables	9,407
Due from other governments	38,343
Prepaid expenses	79,783
	1,196,574
TOTAL ASSETS	\$ 1,196,574
<u>LIABILITIES</u>	
Accounts payable	\$ 280,765
Accrued operating expenses	25,946
Intercompany balances	(563,529)
	(256,818)
TOTAL LIABILITIES	(256,818)
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unavailable revenue - property taxes	6,027
	6,027
TOTAL DEFERRED INFLOWS OF RESOURCES	6,027
<u>FUND BALANCE</u>	
Non-spendable	79,783
Committed	457,882
Assigned	33,140
Unassigned	876,560
	1,447,365
TOTAL FUND BALANCE	1,447,365
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	\$ 1,196,574

BURGESS AND COMMISSIONERS OF MIDDLETOWN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2017

Fund Balance - total governmental funds	\$ 1,447,365
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	9,954,418
Accrued interest payable does not require the use of current resources and therefore is not reported as a liability in the governmental fund	(20,530)
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund	(2,696,430)
Unamortized deferred outflows of resources - pensions	111,942
Unamortized deferred inflows of resources - pensions	(23,499)
Pension liability	(428,914)
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>6,027</u>
Net Position of Governmental Activities	<u><u>\$ 8,350,379</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

REVENUES

Taxes:	
Local	\$ 1,267,786
State shared	1,066,142
County shared	566,687
Other	50,981
Operating grants	34,320
Capital grants and contributions	30,700
Licenses and permits	25,206
Service charges	4,315
Interest income	17,050
Other revenues	29,888
	3,093,075
Total Revenues	3,093,075

EXPENDITURES

General government	1,264,892
Public safety	404,828
Parks and recreation	296,010
Public services	3,013,663
Debt service:	
Principal	238,465
Interest	134,494
	5,352,352
Total Expenditures	5,352,352

OTHER FINANCING SOURCES

Bond proceeds	2,220,545
Net change in fund balance	(38,732)
Fund balance, beginning of year	1,486,097
Fund balance, end of year	\$ 1,447,365

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, 2017

Net change in Fund Balance - total governmental funds	\$	(38,732)
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.		2,115,411
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.		(1,982,080)
Net adjustments to deferred inflows and outflows of resources relative to implementation of GASB 68 - pensions		(2,649)
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 decreased.		(26,887)
Accrued interest payable does not require the use of current resources and therefore is not reported as an expense in the governmental fund		<u>(6,040)</u>
Change in Net Position of Governmental Funds	\$	<u><u>59,023</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUND (WATER AND SEWER)
June 30, 2017

<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,228,255
Receivables:	
Customers accounts	389,073
Loan	4,426,913
Prepaid expenses	21,491
Due from general fund	(563,529)
Capital assets:	
Land	441,374
Other capital assets, net of accumulated depreciation	7,810,802
Construction in progress	676,083
	14,430,462
TOTAL ASSETS	14,430,462
DEFERRED OUTFLOW OF RESOURCES	51,490
	51,490
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	14,481,952
<u>LIABILITIES</u>	
Line of credit	370,314
Accounts payable	317,086
Accrued expenses	65,243
Other accrued liabilities	4,000
Current maturities of long-term debt	336,782
Net pension liability	208,101
Accrued inflow and infiltration liability	418,843
Accrued sludge removal liability	138,200
Long-term debt	4,813,654
	6,672,223
TOTAL LIABILITIES	6,672,223
DEFERRED INFLOW OF RESOURCES	7,822
	7,822
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	6,680,045
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	7,834,422
Unrestricted	(32,515)
	7,801,907
TOTAL NET POSITION	\$ 7,801,907

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, 2017

OPERATING REVENUES

Charges for services:

Water fees	\$ 600,572
Sewer fees	598,261
Late payment fees	13,316
Water tower cell phone antenna leases	183,497
	1,395,646

TOTAL OPERATING REVENUES 1,395,646

OPERATING EXPENSES

Administrative	225,213
Depreciation and amortization	422,411
Water expenses	364,213
Sewer expenses	473,780
	1,485,617

TOTAL OPERATING EXPENSES 1,485,617

OPERATING INCOME (LOSS) (89,971)

NON-OPERATING REVENUES (EXPENSES)

Capital improvement fees	149,307
Connection fees	437,700
Debt service fees	142,700
Improvement fees	184,500
Interest expense	(32,459)
Other non-operating revenues	22,770
	904,518

TOTAL NON-OPERATING REVENUES (EXPENSES) 904,518

CHANGE IN NET POSITION 814,547

TOTAL NET POSITION, BEGINNING OF YEAR 6,987,360

TOTAL NET POSITION, END OF YEAR \$ 7,801,907

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,385,629
Cash paid to suppliers, employees, and professional contractors	<u>(780,568)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>605,061</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(674,254)
Principal payments on notes payable	(354,514)
Principal payments on line of credit	(31,048)
Interest paid on notes payable	(41,860)
Capital improvement fees	147,819
Debt service fees	143,351
Connection fees	437,700
Improvement fees	184,500
Noncapital financing from the general fund	(30,301)
Other	<u>(15,409)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(234,016)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>8,106</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,106</u>

INCREASE IN CASH 379,151

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 849,104

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 1,228,255

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)
FOR THE YEAR ENDED JUNE 30, 2017

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$	(89,971)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization		422,411
(Increase) decrease in:		
Customer accounts receivable		(9,674)
Other receivables		-
Other assets		6,390
Deferred outflow of resources		(9,250)
Increase (decrease) in:		
Accounts payable		259,201
Accrued operating expenses		1,527
Accrued sludge removal liability		26,250
Accrued inflow and infiltration liability		(31,157)
Net pension liability		30,988
Deferred inflow of resources		(1,654)
Other accrued liabilities		-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u>605,061</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

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole. The statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities; and (3) operating grants and contributions which fund the acquisition, construction or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Town have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing U.S. governmental accounting and financial reporting principles. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

Use of Estimates

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

Income Tax Status

The Town is a tax-exempt governmental entity and, accordingly, is exempt from filing Federal and State income tax returns. Therefore, no provision for income taxes has been made in these financial statements.

Recently Adopted Authoritative Guidance

In March 2016, GASB approved Statement No. 82 *Pension Issues: an amendment of GASB Statements No. 67, No. 68, and No. 73*. The application of GASB 82 as it pertains to the Town's financial statements changes the presentation of payroll-related measures in the required supplementary information from covered-employee payroll to covered payroll and clarifies that payments made by an employer to satisfy employee contribution requirements should be classified as wages or fringe benefits and recognized in the period the contribution is assessed. GASB 82 is effective for fiscal year-ends beginning after June 15, 2016. The Town has adopted this new guidance for the fiscal year ended June 30, 2017 and the updated disclosures are included in the accompanying notes to the financial statements (Note 9) and for all years presented in the schedules of required supplementary information.

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 is a member of the Local Government Insurance Trust (LGIT), sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2017, the Town paid premiums approximating \$22,000 to the trust. The trust is self-sustaining through member premiums and purchases reinsurance to reduce its exposure to certain large losses. Over the last three years incurred and paid claims have not exceed insurance coverage.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

The Town also participates in a similar risk sharing pool for its health insurance coverage. The Town is one of 22 local governmental entities covered by the Maryland Local Government Health Cooperative (Cooperative), a self-insurance alliance between member governments. The Cooperative was established as a health plan for the purpose of providing group health benefits to its members' employees and eligible dependents. Each member's premium is calculated using an actuarial study and claims experience. During fiscal year 2017, the Town paid premiums approximating \$150,000. The plan is self-sustaining through member premiums and reinsurance. Reinsurance covers losses in excess of the per-member cap and the group cap, if needed, after the cross share of member premiums. In years where total claims for the group are lower, premiums may be returned to the members. During fiscal year 2017, the Town did not receive any refund of premiums.

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.

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, 2017:

<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Issued</u>	<u>Transferred**</u>	<u>Received</u>	<u>Balance June 30, 2017</u>
Governmental Activities					
Loan receivable - Infrastructure Series A Bond	\$ 1,554,352	\$ -	\$ 800,000	\$(2,231,610)	\$ 122,742
Total Governmental Activities	<u>1,554,352</u>	<u>-</u>	<u>800,000</u>	<u>(2,231,610)</u>	<u>122,742</u>
Business-type Activities					
Loan receivable - Infrastructure Series A Bond	800,000	-	(800,000)	-	-
Loan receivable - Infrastructure Series A Bond	4,500,000	-	-	(73,087)	4,426,913
Total Business-type Activities	<u>5,300,000</u>	<u>-</u>	<u>(800,000)</u>	<u>(73,087)</u>	<u>4,426,913</u>
Total Loan Receivable	<u>\$ 6,854,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(2,304,697)</u>	<u>\$ 4,549,655</u>

** Note 10

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

5. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	2016	Additions	Reductions	2017
<u>Governmental Activities</u>				
Non-depreciable assets:				
Land	\$ 3,850,860	\$ -	\$ -	\$ 3,850,860
Construction in progress	771,922	63,820	713,249	122,493
Depreciable:				
Buildings and improvements	1,336,721	25,585	-	1,362,306
Machinery and equipment	797,216	142,001	-	939,217
Parks and recreation	961,225	21,639	-	982,864
Vehicles	514,405	60,147	-	574,552
Streets	3,331,678	2,850,477	-	6,182,155
Total	<u>11,564,027</u>	<u>3,163,669</u>	<u>713,249</u>	<u>14,014,447</u>
Less accumulated depreciation				
Buildings and improvements	591,989	40,255	-	632,244
Machinery and equipment	523,650	64,674	-	588,324
Parks and recreation	255,158	43,050	-	298,208
Vehicles	372,046	42,012	-	414,058
Streets	1,982,177	145,018	-	2,127,195
Total	<u>3,725,020</u>	<u>\$ 335,009</u>	<u>\$ -</u>	<u>4,060,029</u>
Net book value	<u>\$ 7,839,007</u>			<u>\$ 9,954,418</u>
<u>Business-type Activities</u>				
Non-depreciable assets:				
Land	\$ 441,374	\$ -	\$ -	\$ 441,374
Construction in progress	333,657	455,439	113,013	676,083
Depreciable:				
Sewer distribution	7,312,864	17,435	-	7,330,299
Water distribution	7,690,761	222,138	-	7,912,899
Water meters	131,243	84,355	-	215,598
Springs	17,387	-	-	17,387
Equipment	92,497	-	-	92,497
Vehicles	160,530	-	-	160,530
Buildings	25,787	7,900	-	33,687
Total	<u>16,206,100</u>	<u>787,267</u>	<u>113,013</u>	<u>16,880,354</u>
Less accumulated depreciation				
Sewer distribution	4,002,618	182,512	-	4,185,130
Water distribution	3,313,418	204,412	-	3,517,830
Water meters	5,303	11,478	-	16,781
Springs	7,437	435	-	7,872
Equipment	73,581	14,227	-	87,808
Vehicles	101,540	9,347	-	110,887
Buildings	25,787	-	-	25,787
Total	<u>7,529,684</u>	<u>\$ 422,411</u>	<u>\$ -</u>	<u>7,952,095</u>
Net book value	<u>\$ 8,676,416</u>			<u>\$ 8,928,259</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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

<u>Governmental Activities</u>	
General government	\$ 146,941
Parks and recreation	43,050
Streets and alleys	145,018
	<u>\$ 335,009</u>
 <u>Business Type Activities</u>	
Water and sewer utilities	<u>\$ 422,411</u>

6. Line of Credit

The Town has a revolving line of credit totaling \$2 million, 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, 2017. The outstanding balance at year end was \$370,314. The entire outstanding principal balance due, all accrued and unpaid interest thereon, are due and payable, if not sooner paid, on the 20th day of February 2020.

7. Commitments and Contingencies

The Town leases two copiers under operating leases expiring in 2019 and 2022. Annual lease payments under these leases approximate \$6,000 and \$2,600, respectively, plus the costs of paper.

The Town leases unimproved land under an operating lease expiring in 2027. In lieu of lease payments, the Town pays the real estate taxes, assessments, and utilities. Total payments approximated \$1,000 for fiscal year 2017.

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 twenty 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 an 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 to seven years to determine the locations where significant inflow and infiltration has occurred. The Town then develops construction contracts to address such areas. Inflow and infiltration occurs over the entire system, but the engineering report determines where the construction should be conducted to achieve maximum cost effectiveness. The most recent study was performed in fiscal year 2017 in preparation for the servicing expected to be performed in fiscal year 2018. Management has estimated that the future costs for maintenance of the sanitary sewer system will be approximately \$525,000 and therefore has recognized an accrued liability of \$75,000 in 2017, representing one-seventh of the total estimated liability. Related costs incurred as of June 30, 2017 have been applied against the total accrual. As of June 30, 2017, the Town has reported a total estimated liability for future inflow and infiltration costs of \$418,843.

8. Long-term Debt

The Town's long-term debt as of June 30, 2017 consisted of the following:

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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. \$ 316,252

\$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. 136,500

\$2,500,000 Local Government Infrastructure Bonds from Maryland Department of Housing and Community Development payable in semi-annual installments of principal, ranging from \$73,000 in year one to \$170,500 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. 2,330,000

Total Long-term Debt Principal 2,782,752
 Unamortized bond premium 36,420

Total Governmental Activities 2,819,172

Business-type Activities

\$347,885 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development. The original bonds were refinanced in 2010 when the outstanding balance was \$347,885. Under the terms of the refinanced debt agreement, the bonds are payable in semi-annual installments ranging from \$23,500 to \$32,000, including principal and interest at the rate of .75% increasing to 3.69% with final payment due in May 2023; and collateralized by all revenues, all money held in investments, and all receivables. 175,500

\$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. 4,333,000

\$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. 661,173

Total Long-term Debt Principal 5,169,673
 Net unamortized bond discount (19,237)

Total Business-type Activities 5,150,436

Total Long-term Debt \$ 7,969,608

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of activity charged to interest expense for the year ended June 30, 2017:

	Governmental Activities	Business-Type Activities	Total
Interest expense	\$ 124,198	\$ 170,471	\$ 294,669
Bond origination fees (Note 10)	18,341	(18,341)	-
Amortization of bond discount (premium)	(2,005)	683	(1,322)
Less: interest capitalized	-	(120,354)	(120,354)
Total Interest Expense	\$ 140,534	\$ 32,459	\$ 172,993

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

Description	Balance July 1, 2016	Issued	Transferred**	Retired	Balance June 30, 2017	Balance Due Within One Year
Governmental Activities						
Mortgage Payable	\$ 428,482	\$ -	\$ -	\$ 112,230	\$ 316,252	\$ 115,643
Infrastructure Series A Bond	149,000	-	-	12,500	136,500	13,000
Infrastructure Series A Bond	1,650,360	-	776,640	97,000	2,330,000	97,500
Tax Exempt Bond - Loader	14,730	-	-	14,730	-	-
Total Governmental Activities*	2,242,572	-	776,640	236,460	2,782,752	226,143
Business-type Activities						
Infrastructure Series A Bond	201,500	-	-	26,000	175,500	27,000
Infrastructure Series A Bond	107,000	-	-	107,000	-	-
Infrastructure Series A Bond	776,640	-	(776,640)	-	-	-
Infrastructure Series A Bond	4,429,000	-	-	96,000	4,333,000	94,500
Maryland Water Quality Bond	871,521	-	-	210,348	661,173	215,282
Total Business-type Activities*	6,385,661	-	(776,640)	439,348	5,169,673	336,782
Total Long-term Debt Principal*	\$ 8,628,233	\$ -	\$ -	\$ 675,808	\$ 7,952,425	\$ 562,925

* Does not include net unamortized bond premiums and discounts. For the year ended June 30, 2017, unamortized bond premiums totaled \$36,420 for governmental activities and \$0 for business-type activities; unamortized bond discounts totaled \$0 for governmental activities and \$19,237 for business-type activities.

** Note 10

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
2018	\$ 226,143	\$ 91,961	\$ 336,782	\$ 211,464
2019	232,661	85,954	344,351	200,296
2020	198,448	78,923	354,040	191,867
2021	120,500	74,334	134,000	182,417
2022	124,500	70,534	137,500	171,688
2023-2027	668,000	287,590	620,000	779,357
2028-2035	1,212,500	201,295	1,183,000	1,018,632
2036-2045	-	-	2,060,000	449,320
	\$ 2,782,752	\$ 890,591	\$ 5,169,673	\$ 3,205,041

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2017.

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, 2017 was 7.06% of covered payroll. The Town's contribution to the plan was \$60,223 for the year ended June 30, 2017.

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, 2017, the Town reported a liability of \$637,015 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town's proportionate share was 0.0027%.

For the year ended June 30, 2017, the Town recognized pension expense of \$64,217.

At June 30, 2017, 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	\$ 21,677	\$ -
Net difference between projected and actual investment earnings	81,532	17,616
Net difference between projected and actual experience	-	13,705
Contributions subsequent to the measurement date	60,223	-
	<u> </u>	<u> </u>
Total	<u>\$ 163,432</u>	<u>\$ 31,321</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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 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, 2016 reduce net pension liability for the year ended June 30, 2017. Deferred inflows and outflows related to non-investment activity are being amortized over their estimated remaining service life of ranging from 5 to 5.87 years. The net difference in investment earnings is being amortized over a closed five-year period. The following table shows the amortization of the balances:

Year End June 30,	Deferred Outflows		Deferred Inflows	
	Change in Assumptions	Net Difference in Investment Earnings	Net Difference in Investment Earnings	Actual and Expected Experience
2018	\$ 6,164	\$ 22,965	\$ (8,808)	\$ (3,235)
2019	6,164	22,965	(8,808)	(3,235)
2020	5,000	22,965	-	(3,235)
2021	4,349	12,637	-	(2,970)
2022	-	-	-	(1,030)
	<u>\$ 21,677</u>	<u>\$ 81,532</u>	<u>\$ (17,616)</u>	<u>\$ (13,705)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2016 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 – 2.7% general, 3.2% wage
- Salary increases – 3.3% to 9.2%, 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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.60%
Private Equity	10%	7.40%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Total	<u>100%</u>	

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:

<u>Description</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Discount Rate	6.55%	7.55%	8.55%
Town's Proportionate Share of Pension Liability	\$ 874,996	\$ 637,015	\$ 438,980

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. Change in Estimate

When bond financing was obtained in the previous fiscal year, the receivable and payable were recorded in the fund management estimated the related infrastructure project would occur. In fiscal year 2017, management determined the Series A bond originally estimated to finance projects for both the governmental activities fund and the business-type activities fund would be used to fund a project for only

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

the governmental activities fund. Accordingly, the balances of the loan receivable, bond payable, bond premium, and related issuance and interest costs were transferred from the business-type activities fund to the governmental activities fund. The following table summarizes the effects of the change on the government wide statement of net position and statement of activities:

	Governmental Activities	Business-Type Activities
Increase (Decrease) in:		
Loan receivable (Note 4)	\$ 800,000	\$ (800,000)
Construction in progress	-	(25,216)
Total assets	<u>\$ 800,000</u>	<u>\$ (825,216)</u>
Bond payable (Note 8)	776,640	(776,640)
Bond premium (Note 8)	12,296	(12,296)
Total liabilities	<u>\$ 788,936</u>	<u>\$ (788,936)</u>
Interest expense (Note 8)	43,557	(18,341)
Change in net position	<u>\$ (43,557)</u>	<u>\$ 18,341</u>

11. Recent Governmental Accounting Standards Board (GASB) Pronouncements

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

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments and requires that activities meeting the criteria be reported in a fiduciary fund in the basic financial statements. This Statement is effective for reporting periods beginning after December 15, 2018.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This Statement is effective for reporting period beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liabilities and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting period beginning after December 15, 2019.

The Town has not yet completed the process of evaluating the impact of GASB Statements Nos. 75, 81, 83, 84, 85, 86, and 87 on its financial statements.

12. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2017 through October 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, 2017 through October 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>2017</u>	<u>2016</u>	<u>2015</u>
The Town's proportion of net pension liability*	0.0026999%	0.0028211%	0.0022671%
The Town's proportionate share of net pension liability*	\$ 637,015	\$ 586,272	\$ 402,331
The Town's covered payroll	\$ 853,025	\$ 708,846	\$ 689,798
The Town's proportionate share of net pension liability as a percentage of its covered payroll	74.68%	82.71%	58.33%
Plan fiduciary net position as a percentage of total pension liability*	65.79%	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

<u>June 30,</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 60,223	\$ 52,596	\$ 59,461
Contributions in relation to statutorily required contributions	<u>60,223</u>	<u>52,596</u>	<u>59,461</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Town's covered payroll	853,025	708,846	689,798
Contributions as a percentage of covered payroll	7.06%	7.42%	8.62%

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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 change in the 2016 valuation:

- 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, 2017

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate, net of discounts	\$ 1,228,459	\$ 1,214,182	\$ (14,277)
Tangible personal property	37,108	40,735	3,627
Public utility	12,841	12,869	28
Penalties and interest	10,357	-	(10,357)
	<u>1,288,765</u>	<u>1,267,786</u>	<u>(20,979)</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	22,500	31,547	9,047
Highway	162,421	154,057	(8,364)
Income	834,937	880,538	45,601
Police protection	26,187	26,320	133
	<u>1,046,045</u>	<u>1,092,462</u>	<u>46,417</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	<u>566,687</u>	<u>566,687</u>	<u>-</u>
<u>LICENSES AND PERMITS</u>			
Beer, wine and liquor licenses	1,950	-	(1,950)
Planning and zoning	20,191	20,561	370
Traders licenses	4,900	4,645	(255)
	<u>27,041</u>	<u>25,206</u>	<u>(1,835)</u>
<u>MISCELLANEOUS</u>			
Interest income	-	17,050	17,050
State grants	42,842	30,700	(12,142)
Franchise (cable) taxes	49,940	50,981	1,041
Pavilion fees	1,900	4,315	2,415
Miscellaneous income	7,500	37,888	30,388
	<u>102,182</u>	<u>140,934</u>	<u>38,752</u>
TOTAL REVENUES	<u>\$ 3,030,720</u>	<u>\$ 3,093,075</u>	<u>\$ 62,355</u>

* There were no significant budget amendments made during fiscal year 2017, 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, 2017

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 750	\$ 1,560	\$ 810
Communications	3,480	3,376	(104)
Conventions and meetings	9,000	6,963	(2,037)
Dues and subscriptions	7,400	6,838	(562)
Office supplies and expense	3,600	9,328	5,728
Salaries - commissioners	15,600	15,800	200
	<u>39,830</u>	<u>43,865</u>	<u>4,035</u>
<u>EXECUTIVE</u>			
Salary - burgess	<u>10,200</u>	<u>10,200</u>	<u>-</u>
<u>PROFESSIONAL SERVICES</u>			
Audit fee and other professional services	16,000	13,000	(3,000)
Legal - development and ordinance	7,796	13,594	5,798
	<u>23,796</u>	<u>26,594</u>	<u>2,798</u>
<u>PLANNING AND ZONING</u>			
Salaries	51,872	43,163	(8,709)
Zoning expenses	3,207	10,406	7,199
	<u>55,079</u>	<u>53,569</u>	<u>(1,510)</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	-	40,141	40,141
Administrative salaries	247,131	247,268	137
Communications	6,977	6,932	(45)
Computer expense	28,400	29,534	1,134
Dues and subscriptions	150	-	(150)
Meetings and conventions	100	345	245
Office supplies and expense	26,000	37,364	11,364
Office maintenance and utilities	13,400	34,620	21,220
Postage and printing	200	114	(86)
Professional services	4,600	4,088	(512)
	<u>\$ 326,958</u>	<u>\$ 400,406</u>	<u>\$ 73,448</u>

* There were no significant budget amendments made during fiscal year 2017, 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, 2017

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Director salary	\$ 97,355	\$ 179,432	\$ 82,077
Maintenance salaries	126,742	47,602	(79,140)
Communications	9,000	8,258	(742)
Dues and subscriptions	-	215	215
Maintenance and repairs	21,633	27,361	5,728
Supplies and expense	17,000	11,154	(5,846)
Tools and equipment	500	8,362	7,862
	<u>272,230</u>	<u>282,384</u>	<u>10,154</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	20,000	20,000	-
School safety guard and supplies	15,758	18,422	2,664
Community deputy program	401,611	366,406	(35,205)
	<u>437,369</u>	<u>404,828</u>	<u>(32,541)</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Resident trash and yard waste	<u>273,888</u>	<u>274,295</u>	<u>407</u>
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	-	150,236	150,236
Remsburg Park interest	11,320	11,320	-
Remsburg Park loan payments	112,230	112,230	-
Park salaries	34,807	59,863	25,056
Park electricity	2,358	2,532	174
Park repairs and maintenance	26,450	55,752	29,302
Park mowing	26,215	27,628	1,413
	<u>213,380</u>	<u>419,561</u>	<u>206,181</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	-	2,260,044	2,260,044
Interest	60,927	123,174	62,247
East Green Street loan payments	12,500	12,500	-
West Green Street loan payments	65,960	99,005	33,045
Case Loader loan payments	15,158	14,730	(428)
Maintenance salaries	48,841	62,668	13,827
Equipment operations and repairs	10,000	6,961	(3,039)
Mowing	32,696	31,744	(952)
Repairs and resurfacing	67,195	98,079	30,884
Signs	6,200	4,010	(2,190)
Street lighting	161,916	205,316	43,400
Snow removal	75,000	32,725	(42,275)
Storm water management	7,800	5,385	(2,415)
Truck repair and operation	48,600	39,127	(9,473)
	<u>\$ 612,793</u>	<u>\$ 2,995,468</u>	<u>\$ 2,382,675</u>

* There were no significant budget amendments made during fiscal year 2017, 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, 2017

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>MAIN STREET</u>			
Salaries	\$ 43,680	\$ 45,761	\$ 2,081
Town contribution	10,000	10,260	260
	<u>53,680</u>	<u>56,021</u>	<u>2,341</u>
<u>MISCELLANEOUS</u>			
MT Historical Society - CIP	5,000	5,000	-
Community events	30,250	105,453	75,203
Donations	100	500	400
Insurance - property	14,064	14,265	201
Insurance - employee	123,164	141,261	18,097
Miscellaneous	-	4,061	4,061
Payroll taxes	56,578	53,572	(3,006)
Pension	75,062	56,115	(18,947)
Real estate taxes	1,242	800	(442)
Travel	4,578	1,301	(3,277)
Web page and directory	1,400	2,833	1,433
Other	3,500	-	(3,500)
	<u>314,938</u>	<u>385,161</u>	<u>70,223</u>
TOTAL EXPENDITURES	<u>2,634,141</u>	<u>5,352,352</u>	<u>2,718,211</u>
<u>OTHER FINANCING SOURCES</u>			
Bond proceeds	-	2,220,545	2,220,545
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	<u>\$ 396,579</u>	<u>\$ (38,732)</u>	<u>\$ (435,311)</u>

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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, 2017

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 577,350	\$ 600,572	\$ 23,222
Sewer revenue	577,015	598,261	21,246
Penalties and interest	21,950	13,316	(8,634)
Water tower cell phone antenna leases	-	183,497	183,497
	<u>1,176,315</u>	<u>1,395,646</u>	<u>219,331</u>
<u>ADMINISTRATIVE EXPENSES</u>			
Depreciation	-	422,411	422,411
Salaries - office	45,135	39,206	(5,929)
Advertising	500	559	59
Communications	11,513	12,200	687
Dues and subscriptions	500	420	(80)
Insurance - property	8,500	8,684	184
Insurance - worker's compensation	8,718	11,172	2,454
Insurance - health	52,831	44,913	(7,918)
Meetings and seminars	500	486	(14)
Office supplies and expense	12,600	10,848	(1,752)
Payroll taxes	23,600	22,451	(1,149)
Pension	28,448	43,568	15,120
Postage	9,558	8,030	(1,528)
Professional services - legal	2,000	2,727	727
Real estate taxes	292	292	-
Travel	200	17	(183)
Uniforms	3,925	4,119	194
Rain barrel/educational programs	2,000	-	(2,000)
Waterline	32,908	-	(32,908)
	<u>243,728</u>	<u>632,103</u>	<u>388,375</u>
<u>VEHICLES AND EQUIPMENT</u>			
2008 Truck	3,700	4,506	806
2012 Truck	3,700	4,028	328
2013 Truck	3,700	1,737	(1,963)
2015 Truck	3,700	2,992	(708)
2016 Truck	3,700	-	(3,700)
Miscellaneous Equipment	-	714	714
Bobcat Mini-Excavator	1,050	480	(570)
Case Backhoe	6,050	1,064	(4,986)
	<u>25,600</u>	<u>15,521</u>	<u>(10,079)</u>
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	\$ 139,545	\$ 167,083	\$ 27,538

* There were no significant budget amendments made during fiscal year 2017, 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, 2017

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	\$ 500	\$ 1,857	\$ 1,357
Repairs and maintenance	52,450	72,317	19,867
Supplies	3,572	5,831	2,259
Tools and equipment	3,874	6,674	2,800
Water line break repairs	5,000	182	(4,818)
TOTAL WATER DISTRIBUTION SYSTEM EXPENSES	65,396	86,861	21,465
<u>WATER SOURCES AND TREATMENT</u>			
Electric	20,150	33,368	13,218
Supplies	2,000	795	(1,205)
Repairs and maintenance	31,700	39,668	7,968
Chemicals	23,943	23,154	(789)
Tools and equipment	2,400	1,407	(993)
Testing and analysis	12,988	11,877	(1,111)
TOTAL WATER PLANT SYSTEM	93,181	110,269	17,088
TOTAL WATER SYSTEM EXPENSES	298,122	364,213	66,091
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	121,920	127,311	5,391
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	18,500	22,062	3,562
Brookridge South pumping station	9,735	5,421	(4,314)
Foxfield pumping station	6,500	5,692	(808)
Sanitary sewer lines and manholes	25,000	4,582	(20,418)
Inflow and infiltration	75,000	75,000	-
TOTAL SEWER COLLECTION SYSTEM EXPENSES	134,735	112,757	(21,978)
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	40,844	29,271	(11,573)
Electric	29,647	8,574	(21,073)
Repairs and maintenance	35,800	22,145	(13,655)
Sludge hauling	60,000	45,581	(14,419)
Supplies	5,802	2,598	(3,204)
Testing and analysis	34,187	30,220	(3,967)
Tools and equipment	5,573	1,693	(3,880)
TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES	\$ 211,853	\$ 140,082	\$ (71,771)

* There were no significant budget amendments made during fiscal year 2017, 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, 2017

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 61,258	\$ 51,684	\$ (9,574)
Electric	23,084	5,497	(17,587)
Repairs and maintenance	6,050	4,833	(1,217)
Sludge hauling	22,650	17,250	(5,400)
Supplies	2,500	1,624	(876)
Testing and analysis	10,459	11,071	612
Tools and equipment	1,000	1,671	671
	<u>127,001</u>	<u>93,630</u>	<u>(33,371)</u>
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES			
	<u>595,509</u>	<u>473,780</u>	<u>(121,729)</u>
TOTAL SEWER SYSTEM EXPENSES			
	<u>1,162,959</u>	<u>1,485,617</u>	<u>322,658</u>
TOTAL OPERATING EXPENSES			
	<u>13,356</u>	<u>(89,971)</u>	<u>(103,327)</u>
OPERATING INCOME (LOSS)			
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	-	142,700	142,700
Connection fees	-	437,700	437,700
Improvement fees	-	184,500	184,500
Capital improvement fee	-	149,307	149,307
Miscellaneous income	1,000	5,678	4,678
Capital contributions from developers	-	8,986	8,986
Interest income	-	8,106	8,106
Interest expense	-	(32,459)	(32,459)
	<u>1,000</u>	<u>904,518</u>	<u>903,518</u>
TOTAL OTHER INCOME (EXPENSE)			
	<u>\$ 14,356</u>	<u>\$ 814,547</u>	<u>\$ 800,191</u>
NET INCOME			

* There were no significant budget amendments made during fiscal year 2017, therefore, the budget column shown is the original and final budget.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Burgess and Commissioners of Middletown
Middletown, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the **Burgess and Commissioners of Middletown (“the Town”)** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated October 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Albright Crumbacker Moul & Itell LLC

Hagerstown, Maryland
October 23, 2017

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& ITELL

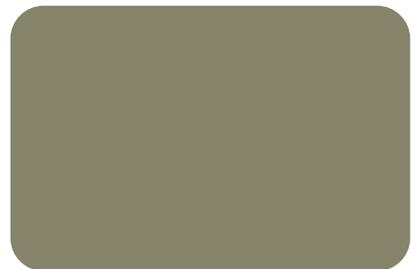
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