

**BURGESS AND COMMISSIONERS
OF MIDDLETOWN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2019

BURGESS AND COMMISSIONERS OF MIDDLETOWN

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INDEPENDENT AUDITOR'S 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, Maryland (“the Town”) as of and for the year ended June 30, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 4-12 and 45-51 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Burgess and Commissioners of Middletown, Maryland's basic financial statements. The schedule of revenues, expenditures and changes in net position – budget and actual – water and sewer fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of revenues, expenditures and changes in net position – budget and actual – water and sewer fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of revenues, expenditures and changes in net position – budget and actual – water and sewer fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2020 on our consideration of the Burgess and Commissioners of Middletown’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 Burgess and Commissioners of Middletown’s internal control over financial reporting and compliance.

Rotz & Stonesifer, P.C.

Chambersburg, Pennsylvania
February 7, 2020

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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, 2019. 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 \$18,961,786 (net position) as of June 30, 2019.
- Total net position is comprised of the following:
 - (1) Invested in capital assets of \$17,201,013 include property and equipment net of accumulated depreciation (\$21,761,083) and net of outstanding debt (\$4,560,070) including the line of credit and capital lease related to the purchase or construction of capital assets and net of the related outstanding loan receivable.
 - (2) Unrestricted net position of \$1,760,773 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 \$1,300,348 this fiscal year. This compares to the prior year ending fund balance of \$776,868 reflecting an increase of \$523,480.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of \$460,425 compared to \$187,602 reported for the prior fiscal year, an increase of \$272,823.

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 for some items that will only result in cash flows in future fiscal periods.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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 and other supplementary information to the basic financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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 is \$18,961,786. This is a \$1,235,311 increase over last year's net assets of \$17,726,475. The following table provides a summary of the Town's net assets at June 30, 2019 and 2018:

Table 1

Town of Middletown

| For the years ended June 30, | Governmental Activities | | Business-Type Activities | | Totals | | Change |
|--|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | |
| Assets | | | | | | | |
| Current assets | \$ 1,988,187 | \$ 1,534,322 | \$ 3,422,275 | \$ 4,132,877 | \$ 5,410,462 | \$ 5,667,199 | \$ (256,737) |
| Capital assets | 10,071,315 | 10,360,924 | 11,689,768 | 10,554,648 | 21,761,083 | 20,915,572 | 845,511 |
| Total Assets | <u>12,059,502</u> | <u>11,895,246</u> | <u>15,112,043</u> | <u>14,687,525</u> | <u>27,171,545</u> | <u>26,582,771</u> | <u>588,774</u> |
| Deferred outflows of resources | <u>96,063</u> | <u>94,743</u> | <u>43,787</u> | <u>43,147</u> | <u>139,850</u> | <u>137,890</u> | <u>1,960</u> |
| Total Assets and Deferred Outflows of Resources | <u>12,155,565</u> | <u>11,989,989</u> | <u>15,155,830</u> | <u>14,730,672</u> | <u>27,311,395</u> | <u>26,720,661</u> | <u>590,734</u> |
| Liabilities | | | | | | | |
| Current & other liabilities | 539,166 | 517,808 | 744,164 | 823,835 | 1,283,330 | 1,341,643 | (58,313) |
| Net pension liability | 433,399 | 430,792 | 210,295 | 209,032 | 643,694 | 639,824 | 3,870 |
| Long-term liabilities | 2,243,736 | 2,477,380 | 4,116,629 | 4,469,975 | 6,360,365 | 6,947,355 | (586,990) |
| Total Liabilities | <u>3,216,301</u> | <u>3,425,980</u> | <u>5,071,088</u> | <u>5,502,842</u> | <u>8,287,389</u> | <u>8,928,822</u> | <u>(641,433)</u> |
| Deferred inflows of resources | <u>44,304</u> | <u>46,420</u> | <u>17,916</u> | <u>18,944</u> | <u>62,220</u> | <u>65,364</u> | <u>(3,144)</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>3,260,605</u> | <u>3,472,400</u> | <u>5,089,004</u> | <u>5,521,786</u> | <u>8,349,609</u> | <u>8,994,186</u> | <u>(644,577)</u> |
| Net position | | | | | | | |
| Invested in capital assets, net of related debt | 7,594,612 | 7,740,721 | 9,606,401 | 9,021,284 | 17,201,013 | 16,762,005 | 439,008 |
| Unrestricted | 1,300,348 | 776,868 | 460,425 | 187,602 | 1,760,773 | 964,470 | 796,303 |
| Total Net Position | <u>\$ 8,894,960</u> | <u>\$ 8,517,589</u> | <u>\$ 10,066,826</u> | <u>\$ 9,208,886</u> | <u>\$ 18,961,786</u> | <u>\$ 17,726,475</u> | <u>\$ 1,235,311</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year. The General Fund is the chief operating fund of the Town. For the fiscal year ended June 30, 2019, the Town's unassigned governmental fund balance increased by \$649,314 to a balance of \$1,084,855. 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, 2019 reported a balance of \$460,425.

Governmental Activities

Table 2 shows the Town's revenue and expenses of the governmental and business-type activities for the years ended June 30, 2019 and 2018. As shown, governmental activities increased the Town's net position by \$377,371 representing 31% 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 \$330,109, or 35%. The Town's revenues from governmental activities totaled \$3,715,875, for the fiscal year ended June 30, 2019. Revenue from taxes represented 89% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,398,541, state income and highway user taxes of \$1,212,130 and county taxes of \$632,552.

The Town's expenditures from governmental activities totaled \$3,338,504 for the fiscal year ended June 30, 2019. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,465,469 or 44% and public services the second largest expense at \$1,269,004 or 38%.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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 \$857,940 for the fiscal year ended June 30, 2019. The major source of revenue is utility service charges for water and sewer which was \$1,419,095 representing 58% 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 |
|-----------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | |
| Revenues | | | | | | | |
| General revenues | | | | | | | |
| Property taxes | \$ 1,398,541 | \$ 1,339,624 | \$ - | \$ - | \$ 1,398,541 | \$ 1,339,624 | \$ 58,917 |
| Income taxes | 1,033,620 | 1,034,356 | - | - | 1,033,620 | 1,034,356 | (736) |
| County taxes | 632,552 | 636,620 | - | - | 632,552 | 636,620 | (4,068) |
| Highway taxes | 178,510 | 161,045 | - | - | 178,510 | 161,045 | 17,465 |
| Other income | 86,669 | 37,345 | 1,026,269 | 826,190 | 1,112,938 | 863,535 | 249,403 |
| Interest income | 15,460 | 15,340 | - | - | 15,460 | 15,340 | 120 |
| Program revenues | | | | | | | |
| Public services | 26,654 | 26,197 | - | - | 26,654 | 26,197 | 457 |
| Public safety | 7,700 | 993 | - | - | 7,700 | 993 | 6,707 |
| Parks & recreation | 54,135 | 117,928 | - | - | 54,135 | 117,928 | (63,793) |
| Water & sewer | - | - | 1,419,095 | 1,222,584 | 1,419,095 | 1,222,584 | 196,511 |
| Other income | 282,034 | 195,632 | - | 190,403 | 282,034 | 386,035 | (104,001) |
| Total Revenues | 3,715,875 | 3,565,080 | 2,445,364 | 2,239,177 | 6,161,239 | 5,804,257 | 356,982 |
| Expenditures | | | | | | | |
| General government | 1,282,259 | 1,320,093 | - | - | 1,282,259 | 1,320,093 | (37,834) |
| Public safety | 409,039 | 427,890 | - | - | 409,039 | 427,890 | (18,851) |
| Parks & recreation | 113,291 | 110,371 | - | - | 113,291 | 110,371 | 2,920 |
| Public services | 910,105 | 715,174 | - | - | 910,105 | 715,174 | 194,931 |
| Depreciation & amortization | 555,004 | 563,905 | 425,318 | 416,727 | 980,322 | 980,632 | (310) |
| Interest expense | 68,806 | 97,538 | - | 38,354 | 68,806 | 135,892 | (67,086) |
| Water & sewer utilities | - | - | 1,162,106 | 1,176,968 | 1,162,106 | 1,176,968 | (14,862) |
| Total Expenditures | 3,338,504 | 3,234,971 | 1,587,424 | 1,632,049 | 4,925,928 | 4,867,020 | 58,908 |
| Net position | | | | | | | |
| Change in net position | 377,371 | 330,109 | 857,940 | 607,128 | 1,235,311 | 937,237 | 298,074 |
| Beginning net position | 8,517,589 | 8,187,480 | 9,208,886 | 8,601,758 | 17,726,475 | 16,789,238 | 937,237 |
| Total Net Position | \$ 8,894,960 | \$ 8,517,589 | \$ 10,066,826 | \$ 9,208,886 | \$ 18,961,786 | \$ 17,726,475 | \$ 1,235,311 |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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, 2019 was \$21,761,083, 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:

- Main Street Waterline Replacement – ongoing construction – total for 2019 - \$1,116,401
- Reservoir Improvements – ongoing construction – total for 2019 - \$128,437
- Chemical Storage Building – ongoing construction – total for 2019 - \$8,864
- Handicap Sidewalk Ramps - \$22,295
- Brine Maker Purchase - \$39,881
- Elm Street Parking Lot Reconstruction - \$37,123
- Elm Street Parking Lot Lights - \$23,560
- Sewer Collection Upgrades - \$615,649
- Billing Software Upgrade - \$21,011

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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, 2019 and 2018 was \$21,761,083 and \$20,915,572, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities increased by 4% from the prior year.

Table 3

**Town of Middletown's Capital
Assets (net of accumulated
depreciation)**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | | <u>Change</u> |
|-------------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|-------------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | |
| Non-Depreciable Assets | | | | | | | |
| Land | \$ 3,837,515 | \$ 3,837,515 | \$ 403,196 | \$ 403,196 | \$ 4,240,711 | \$ 4,240,711 | \$ - |
| Construction in progress | 165,364 | 68,588 | 3,021,637 | 2,182,394 | 3,187,001 | 2,250,982 | 936,019 |
| Total Non-Depreciable Assets | 4,002,879 | 3,906,103 | 3,424,833 | 2,585,590 | 7,427,712 | 6,491,693 | 936,019 |
| Depreciable Assets | | | | | | | |
| Buildings | 603,152 | 649,299 | 6,320 | 7,110 | 609,472 | 656,409 | (46,937) |
| Machinery & equipment | 367,156 | 447,404 | 21,892 | 3,456 | 389,048 | 450,860 | (61,812) |
| Parks & Recreation | 629,233 | 687,989 | - | - | 629,233 | 687,989 | (58,756) |
| Vehicles | 142,732 | 177,227 | 28,184 | 36,545 | 170,916 | 213,772 | (42,856) |
| Streets | 4,326,163 | 4,492,902 | - | - | 4,326,163 | 4,492,902 | (166,739) |
| Sewer collection | - | - | 3,563,409 | 3,120,301 | 3,563,409 | 3,120,301 | 443,108 |
| Water distribution | - | - | 4,366,827 | 4,561,987 | 4,366,827 | 4,561,987 | (195,160) |
| Water meters | - | - | 269,663 | 230,584 | 269,663 | 230,584 | 39,079 |
| Springs | - | - | 8,640 | 9,075 | 8,640 | 9,075 | (435) |
| Total Depreciable Assets | 6,068,436 | 6,454,821 | 8,264,935 | 7,969,058 | 14,333,371 | 14,423,879 | (90,508) |
| Total | \$ 10,071,315 | \$ 10,360,924 | \$ 11,689,768 | \$ 10,554,648 | \$ 21,761,083 | \$ 20,915,572 | \$ 845,511 |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$6,947,362 representing repayments of \$609,909 during the fiscal year ended June 30, 2019. 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 the improvements to the Town's reservoir. Refer to Notes 4, 9, and 10 to the financial statements for more detailed information.

Table 4
Town of Middletown's Long
Term Debt

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | | <u>Change</u> |
|---|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | |
| Mortgage payable - park & recreation land | \$ 81,448 | \$ 200,609 | \$ - | \$ - | \$ 81,448 | \$ 200,609 | \$ (119,161) |
| Infrastructure bonds - street expansion | 110,000 | 123,500 | - | - | 110,000 | 123,500 | (13,500) |
| Infrastructure bonds - street improvements | 2,132,500 | 2,232,500 | - | - | 2,132,500 | 2,232,500 | (100,000) |
| Capital lease - equipment | 120,344 | 151,920 | - | - | 120,344 | 151,920 | (31,576) |
| Infrastructure bonds - water distribution | - | - | 121,000 | 148,500 | 121,000 | 148,500 | (27,500) |
| Infrastructure bonds - water distribution | - | - | 4,142,000 | 4,238,500 | 4,142,000 | 4,238,500 | (96,500) |
| Water quality loan - WWTP | - | - | 225,530 | 445,880 | 225,530 | 445,880 | (220,350) |
| Net unamortized bond premiums & discounts | 32,411 | 34,416 | (17,871) | (18,554) | 14,540 | 15,862 | (1,322) |
| Total Long-Term Debt | <u>\$ 2,476,703</u> | <u>\$ 2,742,945</u> | <u>\$ 4,470,659</u> | <u>\$ 4,814,326</u> | <u>\$ 6,947,362</u> | <u>\$ 7,557,271</u> | <u>\$ (609,909)</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended June 30, 2019

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 leveling out of both the residential and commercial development in Town. The Middletown Glen subdivision completed their build out and the Cross Stone Commons shopping center has one pad site left for development. The Town is now beginning the process of working through the development of the Memar Property, which was annexed in 2018. Although building permits cannot be issued until 2023, the development process will take at least 2-3 years.

In addition, the Town will retire two major loans in 2020 as well as full pay-off of borrowed funds against the Town's line of credit. Those loans are the \$3.4 million dollar loan from MDE for the East WWTP, the Remsburg Park loan for \$1.4 million dollars and the \$457 thousand originally borrowed from the line of credit. The retirement of these debts will allow for unrestricted funds for continued services to our residents and businesses in both the General Fund and Water & Sewer Enterprise Fund without having a major development underway providing a source of additional revenue.

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, 2019

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash & cash equivalents | \$ 1,725,872 | \$ 614,111 | \$ 2,339,983 |
| Receivables | | | |
| Customer accounts | - | 397,808 | 397,808 |
| Other | 134,914 | 11,655 | 146,569 |
| Loan | - | 2,387,292 | 2,387,292 |
| Internal balances | 10,100 | (10,100) | - |
| Due from other governments | 33,650 | - | 33,650 |
| Prepaid expenses | 83,651 | 21,509 | 105,160 |
| Capital assets | | | |
| Capital assets - net of accumulated depreciation | 9,905,951 | 8,668,132 | 18,574,083 |
| Construction in progress | 165,364 | 3,021,636 | 3,187,000 |
| TOTAL ASSETS | 12,059,502 | 15,112,043 | 27,171,545 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources related to pensions | 96,063 | 43,787 | 139,850 |
| LIABILITIES | | | |
| Accounts payable | 176,928 | 320,096 | 497,024 |
| Accrued operating expenses | 83,572 | 66,038 | 149,610 |
| Other accrued liabilities | 45,699 | 4,000 | 49,699 |
| Current maturities of capital lease | 34,519 | - | 34,519 |
| Current maturities of long-term debt | 198,448 | 354,030 | 552,478 |
| Net pension liability | 433,399 | 210,295 | 643,694 |
| Capital lease, long-term | 85,825 | - | 85,825 |
| Long-term debt | 2,157,911 | 4,116,629 | 6,274,540 |
| TOTAL LIABILITIES | 3,216,301 | 5,071,088 | 8,287,389 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pensions | 44,304 | 17,916 | 62,220 |
| NET POSITION | | | |
| Invested in capital assets - net of related debt | 7,594,612 | 9,606,401 | 17,201,013 |
| Unrestricted | 1,300,348 | 460,425 | 1,760,773 |
| TOTAL NET POSITION | \$ 8,894,960 | \$ 10,066,826 | \$ 18,961,786 |

See accompanying notes to financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

| Functions / Programs | Expenditures | Program Revenues | | | Net (Expense) Revenue and Change in Net Position | | Total |
|--|---------------------|-------------------------|--|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-Type Activities | |
| Primary Government: | | | | | | | |
| Governmental Activities | | | | | | | |
| General government | \$ 1,465,469 | \$ 23,384 | \$ - | \$ - | \$ (1,442,085) | \$ - | \$ (1,442,085) |
| Public services | 1,269,004 | - | 26,654 | - | (1,242,350) | - | (1,242,350) |
| Public safety | 409,039 | - | - | 7,700 | (401,339) | - | (401,339) |
| Parks & recreation | 194,992 | 4,135 | - | 50,000 | (140,857) | - | (140,857) |
| Total Governmental Activities | 3,338,504 | 27,519 | 26,654 | 57,700 | (3,226,631) | - | (3,226,631) |
| Business-Type Activities | | | | | | | |
| Water & sewer utilities | 1,587,424 | 1,419,095 | - | - | - | (168,329) | (168,329) |
| Total Primary Government | \$ 4,925,928 | \$ 1,446,614 | \$ 26,654 | \$ 57,700 | (3,226,631) | (168,329) | (3,394,960) |
| General Revenues | | | | | | | |
| Taxes | | | | | | | |
| Property | | | | | 1,398,541 | - | 1,398,541 |
| Income | | | | | 1,033,620 | - | 1,033,620 |
| County shared | | | | | 632,552 | - | 632,552 |
| Highway | | | | | 178,510 | - | 178,510 |
| Other | | | | | 49,441 | - | 49,441 |
| Admissions & amusement | | | | | 25,956 | - | 25,956 |
| Improvement fees | | | | | 258,650 | - | 258,650 |
| Other Income | | | | | 11,272 | 1,026,269 | 1,037,541 |
| Interest income | | | | | 15,460 | - | 15,460 |
| Total General Revenues | | | | | 3,604,002 | 1,026,269 | 4,630,271 |
| Change in Net Position | | | | | 377,371 | 857,940 | 1,235,311 |
| Net Position - July 1, 2018 - (as restated) | | | | | 8,517,589 | 9,208,886 | 17,726,475 |
| Net Position - June 30, 2019 | | | | | \$ 8,894,960 | \$ 10,066,826 | \$ 18,961,786 |

See accompanying notes to financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

BALANCE SHEET – GOVERNMENTAL FUND

June 30, 2019

ASSETS

| | |
|----------------------------|---------------------|
| Cash & cash equivalents | \$ 1,725,872 |
| Receivables | 134,914 |
| Due from proprietary fund | 10,100 |
| Due from other governments | 33,650 |
| Prepaid expenses | 83,651 |
| TOTAL ASSETS | \$ 1,988,187 |

LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES

Liabilities

| | |
|----------------------------|----------------|
| Accounts payable | \$ 176,928 |
| Accrued operating expenses | 19,071 |
| Other accrued liabilities | 45,699 |
| Total Liabilities | 241,698 |

Deferred Inflows of Resources

| | |
|--|----------------|
| Unavailable revenue - property taxes | 3,650 |
| Unavailable revenue - intergovernmental | 114,691 |
| Total Deferred Inflows of Resources | 118,341 |

Fund Balances

| | |
|----------------------------|------------------|
| Nonspendable: | |
| Prepaid expenses | 83,651 |
| Committed to: | |
| Public safety | 388,063 |
| Assigned to: | |
| Community events | 71,579 |
| Unassigned | 1,084,855 |
| Total Fund Balances | 1,628,148 |

| | |
|---|---------------------|
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES | \$ 1,988,187 |
|---|---------------------|

BURGESS AND COMMISSIONERS OF MIDDLETOWN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2019

Total Fund Balances - Governmental Funds \$ 1,628,148

Amounts reported for governmental activities in the Statement of Net Position
are different because:

| | |
|---|----------------------------|
| Capital assets used in governmental activities are not financial resources, and therefore, they are not reported as assets in governmental funds. The cost of assets is \$15,366,664 and the accumulated depreciation is \$5,295,349. | 10,071,315 |
| Accrued interest payable does not require the use of current resources and therefore are not reported as a liability in the governmental fund. | (18,221) |
| Long-term liabilities are not due and payable in the upcoming year and therefore is not reported in the governmental fund | (2,522,983) |
| Unamortized deferred outflows of resources - pensions | 96,063 |
| Unamortized deferred inflows of resources - pensions | (44,304) |
| Pension liability | (433,399) |
| Certain amounts of grant revenues and property taxes in the statement of activities do not provide current financial resources and therefore are not recognized as revenue in the governmental fund: | |
| Deferred inflows of resources - unavailable revenue | <u>118,341</u> |
| Total Net Position - Governmental Activities | <u><u>\$ 8,894,960</u></u> |

See accompanying notes to financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND

For the Year Ended June 30, 2019

Revenues

Taxes:

| | |
|--------------------------------|------------------|
| County shared | \$ 1,666,172 |
| Local | 1,454,290 |
| State shared | 204,466 |
| Other | 26,654 |
| Fees for improvements | 258,650 |
| Capital grants & contributions | 56,979 |
| Licenses & permits | 23,321 |
| Interest income | 15,925 |
| Other revenue | 11,335 |
| Rents | 4,135 |
| Total Revenues | <u>3,721,927</u> |

Expenditures

| | |
|---------------------------|------------------|
| General government | 1,277,698 |
| Public services | 1,116,054 |
| Public safety | 409,039 |
| Parks & recreation | 131,847 |
| Debt service: | |
| Principal | 265,167 |
| Interest | 72,077 |
| Total Expenditures | <u>3,271,882</u> |

Other Financing Sources

| | |
|-------------------------|---------|
| Debt financing proceeds | 122,742 |
|-------------------------|---------|

Net Change in Fund Balance 572,787

Fund Balance

| | |
|---------------|---------------------|
| July 1, 2018 | 1,055,361 |
| June 30, 2019 | <u>\$ 1,628,148</u> |

See accompanying notes to financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE - IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

Net Change in Fund Balances - Governmental Funds \$ 572,787

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 use lives. The amount by which depreciation expense exceeds current year capital outlays is a required adjustment. (289,609)

The issuance of long-term debt 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. 97,220

Net adjustments to deferred inflows and outflows of resources relative to implementation of GASB 68 - pensions 829

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. (5,587)

Accrued interest payable does not require the use of current resources and therefore is not reported as an expense in the governmental fund. 1,731

Change in Net Position - Governmental Activities \$ 377,371

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF NET POSITION – PROPRIETARY FUND – WATER AND SEWER

For the Year Ended June 30, 2019

ASSETS

Current Assets

| | |
|-----------------------------|------------------|
| Cash & cash equivalents | \$ 614,111 |
| Receivables | |
| Customer accounts | 397,808 |
| Other | 11,655 |
| Loan | 2,387,292 |
| Prepaid expenses | 21,509 |
| Total Current Assets | 3,432,375 |

Noncurrent Assets

| | |
|---|-------------------|
| Capital assets | |
| Capital assets, net of accumulated depreciation | 8,668,132 |
| Construction in progress | 3,021,636 |
| Total Noncurrent Assets | 11,689,768 |

TOTAL ASSETS 15,122,143

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions 43,787

LIABILITIES

Current Liabilities

| | |
|--------------------------------------|----------------|
| Accounts payable | 320,096 |
| Accrued operating expenses | 66,038 |
| Other accrued liabilities | 4,000 |
| Current maturities of long-term debt | 354,030 |
| Due to general fund | 10,100 |
| Total Current Liabilities | 754,264 |

Noncurrent Liabilities

| | |
|--|------------------|
| Net pension liability | 210,295 |
| Long-term debt - net of current maturities | 4,116,629 |
| Total Noncurrent Liabilities | 4,326,924 |

Total Liabilities 5,081,188

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions 17,916

NET POSITION

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 9,606,401 |
| Unrestricted | 460,425 |
| TOTAL NET POSITION | \$ 10,066,826 |

See accompanying notes to financial statements.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND – WATER AND SEWER

For the Year Ended June 30, 2019

Operating Revenues

Charges for services

| | |
|---------------------------------------|------------|
| Water fees | \$ 609,447 |
| Sewer fees | 600,798 |
| Water tower cell phone antenna leases | 196,244 |
| Late payment fees | 12,606 |

Total Operating Revenues

1,419,095

Operating Expenses

| | |
|-----------------------------|---------|
| Sewer expenses | 521,757 |
| Depreciation & amortization | 425,318 |
| Water expenses | 273,795 |
| Administrative | 220,397 |

Total Operating Expenses

1,441,267

Operating Loss

(22,172)

Nonoperating Revenues (Expenses)

| | |
|------------------------------|-----------|
| Connection fees | 665,100 |
| Capital improvement fees | 168,633 |
| Debt service fees | 153,650 |
| Other non-operating revenues | 38,886 |
| Interest expense | (146,157) |

Total Nonoperating Revenues (Expenses)

880,112

Net Change in Net Position

857,940

Net Position

| | |
|---------------|----------------------|
| July 1, 2018 | 9,208,886 |
| June 30, 2019 | <u>\$ 10,066,826</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF CASH FLOWS – PROPRIETARY FUND – WATER AND SEWER

For the Year Ended June 30, 2019

Cash Flows from Operating Activities:

| | |
|--|----------------|
| Cash received from charges for services | \$ 1,411,460 |
| Cash payments for goods & services | (611,403) |
| Cash payments to employees for services | (347,400) |
| Net Cash Provided by Operating Activities | <u>452,657</u> |

Cash Flows from Capital and Related Financing Activities:

| | |
|--|------------------|
| Purchase of property & equipment | (1,560,438) |
| Proceeds from loan receivable | 1,025,984 |
| Principal paid on long-term debt | (344,350) |
| Transfers to other funds | (436,679) |
| Principal paid on line of credit | (132,314) |
| Proceeds from surcharge fees | 987,383 |
| Interest paid | (146,157) |
| Other | 33,255 |
| Net Cash Used in Capital and Related Financing Activities | <u>(573,316)</u> |

Cash Flows from Investing Activities:

| | |
|-------------------|--------------|
| Investment income | <u>5,631</u> |
|-------------------|--------------|

Net Change in Cash and Cash Equivalents

(115,028)

Cash and Cash Equivalents:

| | |
|---------------|-------------------|
| July 1, 2018 | 729,139 |
| June 30, 2019 | <u>\$ 614,111</u> |

Reconciliation of Operating Income to Net Cash**Provided by Operating Activities**

| | |
|---|--------------------------|
| Operating loss | \$ (22,172) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation & amortization | 425,318 |
| Noncash interest expense | 683 |
| (Increase) decrease in: | |
| Customer accounts receivable | (7,391) |
| Other receivables | (244) |
| Prepaid expenses | 13,904 |
| Deferred outflows of resources | (640) |
| Increase (decrease) in: | |
| Accounts payable | 38,839 |
| Accrued operating expenses | 4,125 |
| Net pension liability | 1,263 |
| Deferred inflows of resources | (1,028) |
| Net Cash Provided by Operating Activities | <u><u>\$ 452,657</u></u> |

Schedule of Noncash Capital and Related Financing Activities:

| | |
|---|----------------------|
| Amortization of bond discounts as a component of interest expense | <u><u>\$ 683</u></u> |
|---|----------------------|

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF 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.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions, and authorities for which the Town is financially accountable. The Town has also considered all other potential organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing body, and 1) the ability of the Town to impose its will on that organization, or 2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the Town. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the governmental entity. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenue, and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on revenue generated from fees charged to external parties for goods and services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 properly not 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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 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.

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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Receivables - continued

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 FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inter-fund Transactions

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “Internal balances”.

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.

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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Equity Classifications - continued

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:

- Nonspendable – includes fund balance amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors, contributors, or laws and regulations of other governments, or amounts constrained by law through constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Town through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned – includes fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

Approval of an official motion at a formal meeting by the Burgess and Commissioners is required to establish, modify, or rescind committed fund balance. The Burgess and Commissioners or Town Administrator have the authority to express intended uses of resources that result in assigned fund balance. The Town's policy is to spend unrestricted resources in the following order: unassigned, assigned, committed.

The Town does not have a formal minimum fund balance policy.

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 the value of assets acquired under a capital lease.

Deferred Outflows / Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Outflows / Inflows of Resources - continued

In addition to liabilities, the financial statements will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

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.

Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 7, 2020, the date the financial statements were available to be issued.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Town charter requires the Burgess and Commissioners to adopt an annual budget for the general fund and the enterprise fund. The general fund budget is prepared on the cash basis. The enterprise fund budget is prepared on the cash basis except that tap and improvement fees, certain capital expenses, and non-operating income and expense items are not considered. Revenues are budgeted in the year receipt is expected; and expenditures/expenses are budgeted in the year that the applicable purchase orders are expected to be issued. No supplemental appropriations or authorized budget amendments were made during the year. Appropriations for annually budgeted funds lapse at fiscal year-end.

NOTE 3: RISKS AND UNCERTAINTIES

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a member of the Local Government Insurance Trust (LGIT), sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. 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 2019, the Town paid premiums approximating \$23,000 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 exceeded insurance coverage.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 3: RISKS AND UNCERTAINTIES - continued

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 2019, the Town paid premiums approximating \$170,000. 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 2019, 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.

NOTE 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, 2019:

| | <u>Balances</u> <u>July 1, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balances</u> <u>June 30, 2019</u> |
|----------------------------------|--|--------------------|------------------------------|---|
| GOVERNMENTAL ACTIVITIES | | | | |
| Loan receivable - Infrastructure | | | | |
| Series A Bond | \$ 122,742 | \$ - | \$ (122,742) | \$ - |
| BUSINESS-TYPE ACTIVITIES | | | | |
| Loan receivable - Infrastructure | | | | |
| Series A Bond | <u>3,413,276</u> | <u>-</u> | <u>(1,025,984)</u> | <u>2,387,292</u> |
| Total Loan Receivable | <u><u>\$ 3,536,018</u></u> | <u><u>\$ -</u></u> | <u><u>\$ (1,148,726)</u></u> | <u><u>\$ 2,387,292</u></u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets for governmental activities for the year ended June 30, 2019 are as follows:

| | <u>Balances</u> <u>July 1, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balances</u> <u>June 30, 2019</u> |
|--|--|----------------------------|--------------------|---|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 3,837,515 | \$ - | \$ - | \$ 3,837,515 |
| Construction in progress | 68,588 | 96,776 | - | 165,364 |
| Total capital assets not being depreciated | <u>3,906,103</u> | <u>96,776</u> | <u>-</u> | <u>4,002,879</u> |
| Capital assets being depreciated | | | | |
| Buildings & improvements | 1,395,507 | 2,751 | - | 1,398,258 |
| Machinery & equipment | 1,061,415 | 12,656 | - | 1,074,071 |
| Parks & recreation | 1,210,694 | 18,556 | - | 1,229,250 |
| Vehicles | 594,493 | - | - | 594,493 |
| Streets | 6,933,057 | 134,656 | - | 7,067,713 |
| Total capital assets being depreciated | <u>11,195,166</u> | <u>168,619</u> | <u>-</u> | <u>11,363,785</u> |
| Less accumulated depreciation for: | | | | |
| Buildings & improvements | 746,208 | 48,898 | - | 795,106 |
| Machinery & equipment | 614,011 | 92,904 | - | 706,915 |
| Parks & recreation | 522,705 | 77,312 | - | 600,017 |
| Vehicles | 417,266 | 34,495 | - | 451,761 |
| Streets | 2,440,155 | 301,395 | - | 2,741,550 |
| Total accumulated depreciation | <u>4,740,345</u> | <u>555,004</u> | <u>-</u> | <u>5,295,349</u> |
| Governmental Activities, Capital Assets - Net | <u><u>\$ 10,360,924</u></u> | <u><u>\$ (289,609)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 10,071,315</u></u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 5: CAPITAL ASSETS - continued

A summary of changes in capital assets for business-type activities for the year ended June 30, 2019 are as follows:

| | <u>Balances</u> <u>July 1, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balances</u> <u>June 30, 2019</u> |
|---|--|----------------------------|----------------------------|---|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 403,196 | \$ - | \$ - | \$ 403,196 |
| Construction in progress | 2,182,394 | 1,253,702 | (414,459) | 3,021,637 |
| Total capital assets not being depreciated | <u>2,585,590</u> | <u>1,253,702</u> | <u>(414,459)</u> | <u>3,424,833</u> |
| Capital assets being depreciated | | | | |
| Sewer collection | 7,437,333 | 615,650 | - | 8,052,983 |
| Water distribution | 8,290,266 | 27,937 | - | 8,318,203 |
| Water meters | 261,781 | 56,597 | - | 318,378 |
| Springs | 17,383 | - | - | 17,383 |
| Equipment | 92,497 | 21,011 | - | 113,508 |
| Vehicles | 160,530 | - | - | 160,530 |
| Buildings | 33,687 | - | - | 33,687 |
| Total capital assets being depreciated | <u>16,293,477</u> | <u>721,195</u> | <u>-</u> | <u>17,014,672</u> |
| Less accumulated depreciation for: | | | | |
| Sewer collection | 4,317,032 | 172,542 | - | 4,489,574 |
| Water distribution | 3,728,279 | 223,097 | - | 3,951,376 |
| Water meters | 31,197 | 17,518 | - | 48,715 |
| Springs | 8,308 | 435 | - | 8,743 |
| Equipment | 89,041 | 2,575 | - | 91,616 |
| Vehicles | 123,985 | 8,361 | - | 132,346 |
| Buildings | 26,577 | 790 | - | 27,367 |
| Total accumulated depreciation | <u>8,324,419</u> | <u>425,318</u> | <u>-</u> | <u>8,749,737</u> |
| Business-Type Activities, Capital Assets - Net | <u><u>\$ 10,554,648</u></u> | <u><u>\$ 1,549,579</u></u> | <u><u>\$ (414,459)</u></u> | <u><u>\$ 11,689,768</u></u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 5: CAPITAL ASSETS – continued

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

Governmental activities

| | |
|-------------------------------|-------------------|
| Public services | \$ 301,395 |
| General government | 176,297 |
| Parks & recreation | 77,312 |
| Total governmental activities | <u>\$ 555,004</u> |

Business-type activities

| | |
|-------------------------|-------------------|
| Water & sewer utilities | <u>\$ 425,318</u> |
|-------------------------|-------------------|

The Town has active construction projects as of June 30, 2019. At year end the Town's commitments with contractors for major projects are as follows:

| | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|------------------------|----------------------|---------------------------------|
| Main Street waterline | \$ 2,125,177 | \$ 724,962 |
| Drain pipe replacement | - | 65,952 |
| Reservoir tank | 128,437 | 27,996 |
| | <u>\$ 2,253,614</u> | <u>\$ 818,910</u> |

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

The composition of inter-fund balances as of June 30, 2019 is as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|--------------------|----------------------------------|-------------------------------|
| General fund | \$ 10,100 | \$ - |
| Water & sewer fund | - | 10,100 |
| | <u>\$ 10,100</u> | <u>\$ 10,100</u> |

The balance due to the general fund from the water and sewer fund resulted primarily from the time lag between the dates that reimbursable expenditures occur and payments between funds are made. It is anticipated that this balance will be repaid within the subsequent fiscal year.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 7: LINE OF CREDIT

The Town has a revolving line of credit totaling \$2 million, bearing interest at 2.01% plus LIBOR (4.41% at June 30, 2019). The Town did not borrow any additional funds from the line of credit during the year ended June 30, 2019. There was no outstanding balance at year end. The entire outstanding principal balance, all accrued and unpaid interest thereon, are due and payable, if not sooner paid, on the 15th day of February 2020.

NOTE 8: OPERATING LEASES

The Town leases two copiers under operating leases expiring in 2019 and 2022. Annual lease payments under these leases approximate \$2,600 and \$1,000, 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 2019.

The Town has entered into a 25-year purchase agreement for solar energy beginning in fiscal year 2016. Under the terms of the agreement, the Town is obligated to purchase all of the energy generated at a pre-determined rate per kilowatt hour. The quantity of solar energy generated under the agreement fluctuates so that the amount(s) that may be due under the agreement are not able to be determined. Solar energy purchased under this agreement for the fiscal year ended June 30, 2019 approximated \$59,500.

Future minimum lease payments for estimable operating leases are as follows:

| <u>Year Ending June 30:</u> | |
|-----------------------------|------------------|
| 2020 | \$ 4,624 |
| 2021 | 3,628 |
| 2022 | 2,971 |
| 2023 | 1,000 |
| 2024 | 1,000 |
| Thereafter | 2,500 |
| | <u>\$ 15,723</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 9: CAPITAL LEASE

During fiscal year 2018, the Town entered into a 63-month lease agreement for office equipment valued at \$184,756. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the lease inception date. Leased equipment is depreciated over its estimated useful life which is determined to be substantially the same as the lease period. For the year ended June 30, 2019, depreciation expense included in general government depreciation in the governmental activities fund totaled \$36,951. As of June 30, 2019, the net book value of the leased equipment included in machinery and equipment in the governmental activities fund totaled \$110,854.

Future minimum lease payments under the capital lease for June 30 are as follows:

Year Ending June 30:

| | |
|---|------------------------------|
| 2020 | \$ 39,753 |
| 2021 | 39,753 |
| 2022 | 39,753 |
| 2023 | 11,506 |
| | <hr/> 130,765 |
| Less: amount representing interest | 10,421 |
| Present value of minimum lease payments | <hr/> 120,344 |
| Less: current maturities | 34,519 |
| | <hr/> <hr/> <u>\$ 85,825</u> |

NOTE 10: LONG TERM DEBT

The Town's long-term debt consisted of bonds and term loans as of June 30, 2019. These debt arrangements are broken into governmental and business-type activities.

The long-term debt details are as follows:

Governmental Activities:

\$1,400,000 mortgage payable to a private lender. The original mortgage 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%. The loan is due in full no later than February 2020, and is collateralized by park and recreation land.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 10: LONG TERM DEBT – continued

The first Bond Series A is a Local Government Infrastructure Bond from the Maryland Department of Housing and Community Development with a face amount of \$250,000. This bond is 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 4.4%. The bond is collateralized by all local government payments, including money, securities, bank deposits, and any other investments and receivables.

The second Bond Series A is a Local Government Infrastructure Bond from the Maryland Department of Housing and Community Development with a face amount of \$2,500,000. This bond is 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%. The bond is collateralized by all local government payments, including money, securities, bank deposits, and any other investments and receivables.

Business-Type Activities:

The first Bond Series A is a Local Government Infrastructure Bond from the Maryland Department of Housing and Community Development with a face amount of \$347,885. The original bonds were refinanced in 2010 when the outstanding balance was \$347,885. This bond is payable in semi-annual installments of principal, ranging from \$23,500 to \$32,000, plus interest at variable rates ranging from 0.75% to 3.69%. The final payment is due in May 2023. The bond is collateralized by all revenues, all money held in investments, and all receivables.

The second Bond Series A is a Local Government Infrastructure Bond from the Maryland Department of Housing and Community Development with a face amount of \$4,500,000. This bond is payable in semi-annual installments of principal, ranging from \$71,000 in year one to \$240,000 in the final year, plus interest at variable rates ranging from 3.5% to 3.85%. The final payment is due in April 2045. The bond is collateralized by all revenues, all money held in investments, and all receivables.

The Maryland Quality Bond Series 1999 had an original amount of \$3,700,000. The loan agreement was amended in January 2005 when the outstanding principal balances was \$2,890,000. Under the terms of the amendment, the loan is payable in annual installments of \$230,830 every February, which includes principal and interest, and a smaller payment every August, which includes interest and a fixed administrative fee of \$10,435. The interest rate is fixed at 2.35%. The final payment is due in February 2020. The bond is collateralized by the full faith and credit and unlimited taxing power of the Town.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 10: LONG TERM DEBT - continued

The following is a summary of changes in long-term debt for the year ended June 30, 2019:

| | <u>Balance</u> <u>July 1, 2018</u> | <u>Increased</u> | <u>Decreased</u> | <u>Balance</u> <u>June 30, 2019</u> | <u>Balance Due</u> <u>Within One</u> <u>Year</u> |
|---------------------------------------|---------------------------------------|------------------|---------------------|--|--|
| Governmental Activities | | | | | |
| Mortgage payable | \$ 200,609 | \$ - | \$ (119,161) | \$ 81,448 | \$ 81,448 |
| Infrastructure Series A Bond | 123,500 | - | (13,500) | 110,000 | 14,000 |
| Infrastructure Series A Bond | 2,232,500 | - | (100,000) | 2,132,500 | 103,000 |
| | <u>2,556,609</u> | <u>-</u> | <u>(232,661)</u> | <u>2,323,948</u> | <u>198,448</u> |
| Unamortized bond premium | 34,416 | - | (2,005) | 32,411 | - |
| Total Governmental Activities | <u>2,591,025</u> | <u>-</u> | <u>(234,666)</u> | <u>2,356,359</u> | <u>198,448</u> |
| Business-type Activities | | | | | |
| Infrastructure Series A Bond | 148,500 | - | (27,500) | 121,000 | 28,500 |
| Infrastructure Series A Bond | 4,238,500 | - | (96,500) | 4,142,000 | 100,000 |
| Maryland Water Quality Bond | 445,880 | - | (220,350) | 225,530 | 225,530 |
| | <u>4,832,880</u> | <u>-</u> | <u>(344,350)</u> | <u>4,488,530</u> | <u>354,030</u> |
| Unamortized bond discount | (18,554) | - | 683 | (17,871) | - |
| Total Business-type Activities | <u>4,814,326</u> | <u>-</u> | <u>(343,667)</u> | <u>4,470,659</u> | <u>354,030</u> |
| Total Long-Term Debt | <u>\$ 7,405,351</u> | <u>\$ -</u> | <u>\$ (578,333)</u> | <u>\$ 6,827,018</u> | <u>\$ 552,478</u> |

The following is a summary of activity charged to interest expense for the year ended June 30, 2019:

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|-------------------|
| Interest expense | \$ 74,082 | \$ 145,474 | \$ 219,556 |
| Amortization of bond discount (premium) | (2,005) | 683 | (1,322) |
| Total interest expense | <u>\$ 72,077</u> | <u>\$ 146,157</u> | <u>\$ 218,234</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 10: LONG TERM DEBT - continued

Interest was charged directly to the following government activities:

| | |
|--------------------|------------------|
| Public services | \$ 57,504 |
| General government | 6,913 |
| Parks & recreation | 4,389 |
| | <u>\$ 68,806</u> |

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

| | Governmental Activities | | Business-type Activities | |
|-----------|-------------------------|-------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2020 | \$ 198,448 | \$ 80,122 | \$ 354,030 | \$ 171,061 |
| 2021 | 120,500 | 75,542 | 134,000 | 151,303 |
| 2022 | 124,500 | 71,758 | 137,500 | 147,192 |
| 2023 | 128,000 | 67,867 | 141,000 | 142,916 |
| 2024 | 132,500 | 63,829 | 117,000 | 138,362 |
| 2025-2029 | 681,000 | 244,893 | 629,000 | 628,701 |
| 2030-2034 | 768,500 | 122,152 | 751,000 | 511,760 |
| 2035-2039 | 170,500 | 8,247 | 900,000 | 388,770 |
| 2040-2044 | - | - | 1,085,000 | 210,704 |
| 2045 | - | - | 240,000 | 17,024 |
| | <u>\$ 2,323,948</u> | <u>\$ 734,410</u> | <u>\$ 4,488,530</u> | <u>\$ 2,507,793</u> |

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2019.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 11: LEASE REVENUE

The Town has leased a combined total of 20,000 square feet of land over two locations with an estimated value of approximately \$376,000 to be used for cell towers under operating leases which expire at various times beginning July 2019 through October 2022. Unless the lessee opts out, the lease agreements automatically renew for additional periods expiring at various times beginning December 2019 through April 2052. In addition to monthly rent, lessees are responsible for any taxes, assessments, charges, or fees attributable to the use of the land. The leases contain clauses for annual increases ranging from 2% to 4%. In fiscal year 2019, monthly lease fees ranged from \$1,372 to \$5,064. Revenue is recognized as rent becomes due. During the current year, the Town recorded revenues totaling \$196,244.

The future minimum lease payments expected under these operating leases for the years ending June 30 are as follows:

| | |
|------|-------------------|
| 2020 | \$ 190,140 |
| 2021 | 187,309 |
| 2022 | 133,986 |
| 2023 | 138,775 |
| 2024 | 143,744 |
| | <u>\$ 793,954</u> |

NOTE 12: 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.

Benefits Provided

A member may retire with full benefits after attaining 30 years of service regardless of age or at various ages with specified years of eligibility service for reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating in the retirement system prior to specified retirement age are refunded their accumulated contributions plus earned interest or may defer receipt of accumulated contributions until age 60. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of creditable service and average final compensation.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 12: RETIREMENT PLAN - continued

Contributions

Individual plan members are not required to contribute to the plan; however, the Town is required to make annual contributions equal to the actuarially-determined annual pension cost. Such contribution requirements are established, and may be amended, by the Plan's Board of Trustees. Employer contributions are made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Town's contribution to the plan was \$70,141 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$643,694 for its proportionate share of the net pension liability which is an increase of \$3,670 from the previous year's liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Town's proportionate share was 0.003%.

For the year ended June 30, 2019, the Town recognized pension expense of \$66,294.

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
|--|---|--|
| Changes in assumptions | \$ 14,656 | \$ - |
| Net difference between projected & actual investment earnings | 35,602 | 20,691 |
| Differences between expected & actual experience | - | 41,529 |
| Net changes in proportions | 19,451 | - |
| Contributions subsequent to the measurement date | 70,141 | - |
| | <u>\$ 139,850</u> | <u>\$ 62,220</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 12: RETIREMENT PLAN - continued

Deferred inflows and outflows of resources are made up of employer contributions, changes in actuarial assumptions, differences in actual and expected experience, net changes in proportions, 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, 2018 reduce net pension liability for the year ended June 30, 2019. 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:

| Years Ending June 30, | Deferred Outflows | | | Deferred Inflows | |
|-----------------------|------------------------|---------------------------------------|------------------------|---------------------------------------|--------------------------------|
| | Changes in Assumptions | Net Difference in Investment Earnings | Changes in Proportions | Net Difference in Investment Earnings | Actual and Expected Experience |
| 2020 | \$ 6,234 | \$ 22,965 | \$ 4,119 | \$ 6,246 | \$ 11,570 |
| 2021 | 5,584 | 12,637 | 4,119 | 6,246 | 11,304 |
| 2022 | 1,234 | - | 4,119 | 6,246 | 9,363 |
| 2023 | 1,112 | - | 4,119 | 1,134 | 7,148 |
| 2024 | 492 | - | 2,975 | 819 | 2,144 |
| | <u>\$ 14,656</u> | <u>\$ 35,602</u> | <u>\$ 19,451</u> | <u>\$ 20,691</u> | <u>\$ 41,529</u> |

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2017 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 – 2018 -2.60% general, 3.10% wage; 2017 – 2.65% general, 3.15% wage
- Salary increases – 2018 - 3.15% to 9.15%, including inflation; 2017 – 3.10% to 9.10%
- Discount rate – 2018 - 7.45%; 2017 – 7.50%
- Investment rate of return – 2018 – 7.45%; 2017 - 7.50%
- Mortality – RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study that was performed for the five-year period ended June 30, 2014.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 12: RETIREMENT PLAN - continued

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

| Asset Class: | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------------|------------------------------|---|
| Public equity | 37% | 5.8% |
| Private equity | 13% | 6.7% |
| Rate sensitive | 19% | 1.1% |
| Credit opportunity | 9% | 3.6% |
| Real assets | 14% | 4.8% |
| Absolute return | 8% | 3.2% |
| | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.45%. This single discount rate was based on the expected rate of return on pension plan investments of 7.45%. 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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 12: RETIREMENT PLAN - continued

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:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------|--------------------------|-------------|
| | 6.45% | 7.45% | 8.45% |
| Town's proportionate share of the net pension liability | \$ 927,141 | \$ 643,694 | \$ 408,454 |

Pension Plan Fiduciary Net Position

Detailed information about the System's fiduciary 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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

NOTE 13: PRIOR PERIOD ADJUSTMENTS

The following schedule summarizes adjustments and the effect on beginning net position in the General Fund:

| | Governmental Activities |
|---|-----------------------------|
| Beginning net position as previously reported at June 30, 2018 | <u>\$ 8,680,488</u> |
| Prior period adjustment - accumulated depreciation adjustment | <u>(162,899)</u> |
| Net position as restated at July 1, 2018 | <u><u>\$ 8,517,589</u></u> |
| | Business-Type Activities |
| Beginning net position as previously reported at June 30, 2018 | <u>\$ 8,409,035</u> |
| Prior period adjustments | |
| Accumulated depreciation adjustment | 44,401 |
| Sludge liability correction | 155,450 |
| Inflow & infiltration liability correction | 153,551 |
| Capital asset additions | 446,449 |
| Total prior period adjustments | <u>799,851</u> |
| Net position as restated at July 1, 2018 | <u><u>\$ 9,208,886</u></u> |

REQUIRED SUPPLEMENTARY INFORMATION

BURGESS AND COMMISSIONERS OF MIDDLETOWN

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF THE TOWNS'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MARYLAND STATE RETIREMENT AND PENSION SYSTEMS

| As of June 30: | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|-------------|-------------|
| Town's proportion of the net pension liability* | 0.0031% | 0.0030% | 0.0027% | 0.0028% | 0.0023% |
| Town's proportionate share of the net pension liability* | \$ 643,194 | \$ 639,824 | \$ 637,015 | \$ 586,272 | \$ 402,331 |
| Town's covered-employee payroll | \$ 888,986 | \$ 821,164 | \$ 853,025 | \$ 708,846 | \$ 689,798 |
| Town's proportionate share of the net pension liability* as a percentage of its covered-employee payroll | 72.35% | 77.92% | 74.68% | 82.71% | 58.33% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.18% | 69.38% | 65.79% | 68.78% | 71.87% |

* - Amounts were determined as of the end of the previous period

Notes:

1. Changes of Benefit Terms: There were no changes of benefit terms.
2. Changes of Assumptions – See note 12

This schedule will be expanded to show 10 fiscal years once information becomes available in future years.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

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

| <u>Year Ended June 30</u> | <u>Contractually Required Contribution</u> | <u>Actual Employer Contributions</u> | <u>Contribution Deficiency (Excess)</u> | <u>Town's Covered Employee Payroll</u> | <u>Contributions as a Percentage of Covered Employee Payroll</u> |
|---------------------------|--|--|---|--|--|
| 2019 | \$ 70,141 | \$ 70,141 | \$ - | \$ 888,986 | 7.89% |
| 2018 | \$ 61,177 | \$ 61,177 | \$ - | \$ 821,164 | 7.45% |
| 2017 | \$ 60,223 | \$ 60,223 | \$ - | \$ 853,025 | 7.06% |
| 2016 | \$ 52,596 | \$ 52,596 | \$ - | \$ 708,846 | 7.42% |
| 2015 | \$ 59,461 | \$ 59,461 | \$ - | \$ 689,798 | 8.62% |

This schedule will be expanded to show 10 fiscal years once information becomes available in future years.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

REQUIRED SUPPLEMENTARY INFORMATION STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2019

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|--|---------------------|------------------|---|
| Revenues | | | |
| Local taxes | | | |
| Real estate, net of discounts | \$ 1,304,924 | \$ 1,337,363 | \$ 32,439 |
| Tangible personal property | 44,063 | 57,712 | 13,649 |
| Franchise (cable) taxes | 55,145 | 49,441 | (5,704) |
| Penalties & interest | 11,045 | 9,774 | (1,271) |
| Public utility | 14,192 | - | (14,192) |
| Total Revenues from Local Taxes | <u>1,429,369</u> | <u>1,454,290</u> | <u>24,921</u> |
| State shared taxes and grants | | | |
| Highway | 177,025 | 178,510 | 1,485 |
| Admission & amusement | 34,125 | 25,956 | (8,169) |
| Total Revenues from State Sources | <u>211,150</u> | <u>204,466</u> | <u>(6,684)</u> |
| County shared taxes | | | |
| Income | 1,024,876 | 1,033,620 | 8,744 |
| Tax equity program | 632,552 | 632,552 | - |
| Total County Shared Taxes | <u>1,657,428</u> | <u>1,666,172</u> | <u>8,744</u> |
| Police Protection | 26,187 | 26,654 | 467 |
| Licenses & permits | | | |
| Planning & zoning | 21,289 | 18,017 | (3,272) |
| Business & traders licenses | 4,900 | 5,304 | 404 |
| Total Revenues from Licenses & Permits | <u>26,189</u> | <u>23,321</u> | <u>(2,868)</u> |
| Parks & Recreation | | | |
| Grants | - | 50,000 | 50,000 |
| Pavilion rentals | 4,315 | 4,135 | (180) |
| Total Revenues from Parks & Recreation | <u>4,315</u> | <u>54,135</u> | <u>49,820</u> |

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|---------------------|------------------|--|
| Miscellaneous | | | |
| Improvement fees | - | 258,650 | 258,650 |
| Interest income | - | 15,925 | 15,925 |
| Miscellaneous income | 2,500 | 11,335 | 8,835 |
| State grants | - | 6,979 | 6,979 |
| Total Revenues from Miscellaneous | <u>2,500</u> | <u>292,889</u> | <u>290,389</u> |
| Total Revenues | 3,357,138 | 3,721,927 | 364,789 |
| Expenditures | | | |
| General government legislative | | | |
| Salaries - commissioners | 21,000 | 22,550 | (1,550) |
| Conventions & meetings | 7,500 | 15,131 | (7,631) |
| Dues & subscriptions | 7,400 | 6,863 | 537 |
| Communications | 3,480 | 3,097 | 383 |
| Offices supplies & expense | 7,500 | 2,921 | 4,579 |
| Advertising | 500 | 669 | (169) |
| Total General Government Legislative | <u>47,380</u> | <u>51,231</u> | <u>(3,851)</u> |
| Executive | | | |
| Salary - burgess | 10,200 | 9,350 | 850 |
| Professional services | | | |
| Audit fee & other professional services | 16,000 | 16,000 | - |
| Legal - development & ordinance | 9,130 | 3,870 | 5,260 |
| Total Professional Fees | <u>25,130</u> | <u>19,870</u> | <u>5,260</u> |
| Planning & zoning | | | |
| Salaries | 64,416 | 53,586 | 10,830 |
| Zoning expenses | 2,684 | 15,459 | (12,775) |
| Meetings & conventions | - | 1,305 | (1,305) |
| Total Planning & Zoning | <u>67,100</u> | <u>70,350</u> | <u>(3,250)</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

REQUIRED SUPPLEMENTARY INFORMATION STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL – GENERAL FUND - continued

For the Year Ended June 30, 2019

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|---|---------------------|----------------|---|
| Expenditures - continued | | | |
| General services administration | | | |
| Administrative salaries | 272,402 | 209,109 | 63,293 |
| Capital outlay | - | 112,183 | (112,183) |
| Offices supplies & expense | 42,232 | 38,150 | 4,082 |
| Capital lease payments | - | 31,576 | (31,576) |
| Office maintenance & utilities | 23,500 | 29,855 | (6,355) |
| Computer expense | 21,800 | 26,661 | (4,861) |
| Communications | 10,300 | 7,715 | 2,585 |
| Capital lease interest | - | 6,913 | (6,913) |
| Miscellaneous | - | 2,920 | (2,920) |
| Professional services | 4,600 | 2,483 | 2,117 |
| Meetings & conventions | 100 | 1,350 | (1,250) |
| Postage & printing | 200 | 9 | 191 |
| Dues & subscriptions | 150 | - | 150 |
| Total General Government Administrative | <u>375,284</u> | <u>468,924</u> | <u>(93,640)</u> |
| Operations | | | |
| Operations salary | 247,722 | 296,249 | (48,527) |
| Maintenance & repairs | 25,982 | 22,030 | 3,952 |
| Supplies & expense | 19,500 | 16,320 | 3,180 |
| Communications | 10,200 | 10,656 | (456) |
| Tools & equipment | 3,166 | 2,498 | 668 |
| Dues & subscriptions | 1,500 | 175 | 1,325 |
| Total Operations | <u>308,070</u> | <u>347,928</u> | <u>(39,858)</u> |
| Public safety | | | |
| Community deputy program | 393,895 | 370,553 | 23,342 |
| Fire company donation | 20,000 | 20,000 | - |
| School safety guard & supplies | 21,910 | 18,486 | 3,424 |
| Total Public Safety | <u>435,805</u> | <u>409,039</u> | <u>26,766</u> |
| Sanitation & waste removal | | | |
| Resident trash & yard waste | 284,930 | 303,453 | (18,523) |

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|-----------------------------------|---------------------|----------------|---|
| Expenditures - continued | | | |
| Parks, recreation & culture | | | |
| Remsburg Park loan payments | 119,161 | 120,091 | (930) |
| Park salaries | 49,000 | 33,878 | 15,122 |
| Park mowing | 33,935 | 32,212 | 1,723 |
| Park repairs & maintenance | 31,150 | 31,785 | (635) |
| Capital outlay | - | 18,556 | (18,556) |
| Park electricity | 2,505 | 15,416 | (12,911) |
| Remsburg Park interest | 4,389 | 4,389 | - |
| Total Parks, Recreation & Culture | <u>240,140</u> | <u>256,327</u> | <u>(16,187)</u> |
| Highways & streets | | | |
| Maintenance salaries | 70,232 | 104,798 | (34,566) |
| Street lighting | 182,300 | 174,115 | 8,185 |
| Capital outlay | - | 134,656 | (134,656) |
| Snow removal | 85,300 | 123,848 | (38,548) |
| Loan principal payments | 100,000 | 113,500 | (13,500) |
| Repairs & resurfacing | 92,000 | 107,282 | (15,282) |
| Interest | 77,358 | 60,775 | 16,583 |
| Mowing | 33,440 | 36,133 | (2,693) |
| Truck repair & operation | 28,000 | 34,548 | (6,548) |
| Equipment operations & repairs | 21,172 | 23,915 | (2,743) |
| Signs | 5,300 | 9,608 | (4,308) |
| Storm water management | 7,545 | 5,260 | 2,285 |
| Total Highways & Street | <u>702,647</u> | <u>928,438</u> | <u>(225,791)</u> |
| Main Street | | | |
| Salaries | 47,147 | 47,968 | (821) |
| Town contributions | 10,000 | 10,470 | (470) |
| Total Main Street | <u>57,147</u> | <u>58,438</u> | <u>(1,291)</u> |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

REQUIRED SUPPLEMENTARY INFORMATION STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL – GENERAL FUND - continued

For the Year Ended June 30, 2019

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|---------------------|---------------------|--|
| Expenditures - continued | | | |
| Miscellaneous | | | |
| Insurance - employee | 165,325 | 147,649 | 17,676 |
| Pension | 71,100 | 64,262 | 6,838 |
| Payroll taxes | 63,139 | 60,392 | 2,747 |
| Community events | 53,290 | 46,149 | 7,141 |
| Insurance - property | 15,906 | 13,581 | 2,325 |
| Web page & directory | 3,755 | 5,236 | (1,481) |
| MT Historical Society - CIP | 5,000 | 5,000 | - |
| Other | 3,100 | 3,195 | (95) |
| Real estate taxes | 800 | 1,680 | (880) |
| Travel | 2,278 | 1,390 | 888 |
| Total Miscellaneous | <u>383,693</u> | <u>348,534</u> | 35,159 |
| Total Expenditures | <u>2,937,526</u> | <u>3,271,882</u> | (334,356) |
| Other Financing Revenues (Expenditures) | | | |
| Loan proceeds | - | 122,742 | 122,742 |
| CIP contribution | (419,612) | - | 419,612 |
| Total Other Financing Sources | <u>(419,612)</u> | <u>122,742</u> | 542,354 |
| Excess (Deficit) of Revenue Over Expenditures | <u>\$ -</u> | <u>572,787</u> | <u>\$ (572,787)</u> |
| Fund Balance | | | |
| July 1, 2018 | | <u>1,055,361</u> | |
| June 30, 2019 | | <u>\$ 1,628,148</u> | |

OTHER SUPPLEMENTARY INFORMATION

BURGESS AND COMMISSIONERS OF MIDDLETOWN

OTHER SUPPLEMENTARY INFORMATION SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION BUDGET AND ACTUAL – WATER AND SEWER FUND

For the Year Ended June 30, 2019

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---------------------------------------|---------------------|------------------|--|
| Operating Revenues | | | |
| Charges for services | | | |
| Water revenue | \$ 624,139 | \$ 609,447 | \$ (14,692) |
| Sewer revenue | 616,076 | 600,798 | (15,278) |
| Water tower cell phone antenna leases | - | 196,244 | 196,244 |
| Penalties & interest | 22,161 | 12,606 | (9,555) |
| Rain barrel sales | 1,001 | - | (1,001) |
| Total Operating Revenues | <u>1,263,377</u> | <u>1,419,095</u> | <u>155,718</u> |
| Expenses | | | |
| Administrative expenses | | | |
| Depreciation | - | 425,318 | (425,318) |
| Salaries - office | 34,407 | 48,134 | (13,727) |
| Insurance - health | 54,716 | 45,042 | 9,674 |
| Pension | 22,912 | 25,649 | (2,737) |
| Payroll taxes | 23,721 | 24,611 | (890) |
| Office supplies & expense | 14,000 | 16,354 | (2,354) |
| Communications | 11,742 | 12,271 | (529) |
| Insurance - property | 11,848 | 8,065 | 3,783 |
| Insurance - worker's compensation | 9,911 | 7,026 | 2,885 |
| Postage | 9,750 | 6,620 | 3,130 |
| Professional services - legal | 2,000 | 5,264 | (3,264) |
| Uniforms | 5,068 | 3,371 | 1,697 |
| Dues & subscriptions | 500 | 879 | (379) |
| Meetings & seminars | 500 | 626 | (126) |
| Advertising | 500 | 490 | 10 |
| Real estate taxes | 292 | 292 | - |
| Travel | 200 | 150 | 50 |
| Rain barrel/educational programs | 999 | - | 999 |
| I&I loan principal & interest | 32,743 | - | 32,743 |
| Total Administrative | <u>235,809</u> | <u>630,162</u> | <u>(394,353)</u> |

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|------------------------------------|---------------------|----------------|---|
| Expenses - continued | | | |
| Vehicles & equipment | | | |
| 2008 truck | 4,200 | 3,591 | 609 |
| Case backhoe | 3,000 | 3,473 | (473) |
| 2012 truck | 1,800 | 3,317 | (1,517) |
| 2013 truck | 2,600 | 2,623 | (23) |
| 2015 truck | 2,300 | 2,282 | 18 |
| 2009 truck | - | 176 | (176) |
| Bobcat mini-excavator | - | 91 | (91) |
| 2016 truck | 1,100 | - | 1,100 |
| Total Vehicles & Equipment | <u>15,000</u> | <u>15,553</u> | <u>(553)</u> |
| Water System Expenses | | | |
| Water expenses | | | |
| Salaries & wages | 151,440 | 145,992 | 5,448 |
| Water distribution system | | | |
| Supplies | 5,500 | 23,286 | (17,786) |
| Repairs & maintenance | 37,000 | 14,418 | 22,582 |
| Water line break repairs | 5,000 | 3,498 | 1,502 |
| Chemicals | 500 | 2,106 | (1,606) |
| Tools & equipment | 4,000 | 50 | 3,950 |
| Total Water Distribution System | <u>52,000</u> | <u>43,358</u> | <u>8,642</u> |
| Water sources & treatment | | | |
| Electric | 26,561 | 44,721 | (18,160) |
| Chemicals | 17,132 | 14,777 | 2,355 |
| Repairs & maintenance | 37,722 | 10,907 | 26,815 |
| Supplies | 2,000 | 9,174 | (7,174) |
| Testing & analysis | 5,900 | 4,235 | 1,665 |
| Tools & equipment | 1,933 | 631 | 1,302 |
| Tank maintenance | 100,000 | - | 100,000 |
| Total Water Sources & Treatment | <u>191,248</u> | <u>84,445</u> | <u>106,803</u> |
| Total Water System Expenses | 394,688 | 273,795 | 120,893 |

BURGESS AND COMMISSIONERS OF MIDDLETOWN

OTHER SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 BUDGET AND ACTUAL – WATER AND SEWER FUND - continued

For the Year Ended June 30, 2019

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|---------------------------------------|---------------------|----------------|---|
| Expenses - continued | | | |
| Sewer System Expenses | | | |
| Sewer | | | |
| Salaries & wages | 115,933 | 121,015 | (5,082) |
| Sewer collection system | | | |
| Inflow & infiltration | 75,000 | 18,205 | 56,795 |
| Sanitary sewer lines & manholes | 22,080 | 18,020 | 4,060 |
| Cone Branch pumping station | 29,118 | 17,506 | 11,612 |
| Foxfield pumping station | - | 4,674 | (4,674) |
| Brookridge South pumping station | - | 2,503 | (2,503) |
| Total Sewer Collection System | <u>126,198</u> | <u>60,908</u> | <u>65,290</u> |
| East wastewater treatment plant | | | |
| Sludge hauling | 55,669 | 63,145 | (7,476) |
| Chemicals | 34,285 | 46,725 | (12,440) |
| Testing & analysis | 36,610 | 28,597 | 8,013 |
| Repairs & maintenance | 12,600 | 19,663 | (7,063) |
| Supplies | 5,581 | 14,222 | (8,641) |
| Tools & equipment | 4,500 | 1,827 | 2,673 |
| Total East Wastewater Treatment Plant | <u>149,245</u> | <u>174,179</u> | <u>(24,934)</u> |

| | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|---------------------|----------------------|--|
| Expenses - continued | | | |
| West wastewater treatment plant | | | |
| Chemicals | 50,531 | 53,561 | (3,030) |
| Testing & analysis | 10,449 | 9,040 | 1,409 |
| Repairs & maintenance | 15,000 | 2,689 | 12,311 |
| Supplies | 2,500 | 862 | 1,638 |
| Tools & equipment | 2,766 | 15 | 2,751 |
| Sludge hauling | 17,250 | - | 17,250 |
| Total West Wastewater Treatment Plant | <u>98,496</u> | <u>66,167</u> | <u>32,329</u> |
| | | | |
| Electric | <u>75,000</u> | <u>99,488</u> | <u>(24,488)</u> |
| Total Sewer System Expenses | <u>564,872</u> | <u>521,757</u> | <u>43,115</u> |
| | | | |
| Total Operating Expenses | <u>1,210,369</u> | <u>1,441,267</u> | <u>(230,898)</u> |
| | | | |
| Operating Income (Loss) | 53,008 | (22,172) | (75,180) |
| | | | |
| Other Income (Expenses) | | | |
| Connection fees | - | 665,100 | 665,100 |
| Capital improvement fee | - | 168,633 | 168,633 |
| Debt service fee | - | 153,650 | 153,650 |
| Interest income | - | 17,255 | 17,255 |
| Capital contributions from developers | - | 16,000 | 16,000 |
| Miscellaneous income | - | 5,631 | 5,631 |
| CIP contribution | (50,304) | - | 50,304 |
| Contingency fund | (2,704) | - | 2,704 |
| Interest expense | - | (146,157) | (146,157) |
| Total Other Income (Expense) | <u>(53,008)</u> | <u>880,112</u> | <u>933,120</u> |
| | | | |
| Excess (Deficit) of Revenue Over Expenses | <u>\$ -</u> | <u>857,940</u> | <u>\$ (857,940)</u> |
| | | | |
| Fund Balance | | | |
| July 1, 2018 - as restated | | 9,208,886 | |
| June 30, 2019 | | <u>\$ 10,066,826</u> | |

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INDEPENDENT AUDITOR'S 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, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 7, 2020.

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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rotz & Stonesifer, P.C.

Chambersburg, Pennsylvania
February 7, 2020

BURGESS AND COMMISSIONERS OF MIDDLETOWN

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2019

Financial Statement Findings

A. Material Weaknesses in Internal Control

2019-001 - Preparing Financial Statements and Disclosures

Criteria and Condition: A properly designed system of internal control, as contemplated by generally accepted auditing standards, should include control procedures over the selection and application of accounting principles and new pronouncements and the preparation of financial statements including disclosures. However, for most governmental entities similar in size to the Town, such knowledge does not exist within management. Management relies upon the auditor to prepare financial statements and related disclosures for external reporting purposes and to assist in the selection of accounting principles and the implementation of new accounting pronouncements. The lack of such abilities internally within the Town is considered a material weakness in internal control as defined by current auditing standards.

Cause: The Town relies on the external auditor to prepare financial statements and related disclosures for external reporting purposes and to assist in the selection of accounting principles and the implementation of new accounting pronouncements.

Potential Effect: The financial statements could have been misstated, and the Town's internal control system may not have identified the misstatement without assistance from the external auditor.

Recommendation: Compliance with the current internal control standards may not be cost-effective for the Town, and as an alternative, the Town may decide to continue to rely on its external auditors to prepare the financial statements and to assist with implementation of new or complex accounting issues. However, we are required by professional standards to call attention to these circumstances to properly inform management and those charged with governance of the Town.

Auditee Response: Management understands and concurs with the aforementioned finding; however, at this time, management has determined that it is cost-beneficial for the Town to continue to rely on the external auditors to prepare the financial statements and to assist with new or complex accounting issues.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2019

2019-002 – Calculation of Depreciation

Criteria and Condition: Depreciation on capital assets is calculated under the straight-line method using the estimated useful life of the asset. A manual spreadsheet is used to calculate depreciation and resulting accumulated depreciation based on the estimated useful life and acquisition price of the capital asset. The Town had miscalculations on the manual spreadsheet that materially misstated beginning accumulated depreciation by a material amount.

Cause: The Town has a significant amount of capital assets which results in a complicated spreadsheet that has the potential for material errors in the calculations.

Potential Effect: The financial statements could be misstated, and the Town's internal control system may not have identified the misstatement.

Recommendation: The Township should have someone review the depreciation calculation on an annual or semi-annual basis. In addition, the Township could investigate purchasing a depreciation software, which would make the annual calculations automated.

Auditee Response: Management understands and concurs with the aforementioned finding. Management will review the recommendations and determine the best course of action going forward.

B. Compliance Findings

There were no material findings relating to the financial statement audit required to be reported.