



Middletown

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND

**Financial Statements, Supplementary Information,
and Independent Auditors' Reports**

For the Year Ended June 30, 2025



**BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
For the Year Ended June 30, 2025**

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INDEPENDENT AUDITORS' REPORT

The Burgess and Commissioners Middletown, Maryland

Report on the Financial Statements

Opinions

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, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Burgess and Commissioners of Middletown, Maryland's basic financial statements as listed in the table of contents.

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 Burgess and Commissioners of Middletown, Maryland, as of June 30, 2025, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Burgess and Commissioners of Middletown, Maryland and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Burgess and Commissioners of Middletown, Maryland's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Burgess and Commissioners of Middletown, Maryland's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Burgess and Commissioners of Middletown, Maryland's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 4 - 11 and 43 - 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report January 29, 2026 on our consideration of the Burgess and Commissioners of Middletown, Maryland'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, Maryland's internal control over financial reporting and compliance.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
January 29, 2026

**The Burgess and Commissioners of Middletown, Maryland
Management's Discussion and Analysis
For the Year Ended June 30, 2025**

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, 2025. 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 \$25,140,799 (net position) as of June 30, 2025.
- Total net position is comprised of the following:
 - (I) Invested in capital assets of \$21,507,673 which includes property and equipment net of accumulated depreciation (\$29,627,286) and net of outstanding debt (\$8,119,613) including the line of credit, capital lease, and accounts payable related to the purchase or construction of capital assets and net of the related outstanding loan receivable.
 - (II) Restricted net position of \$1,924,271 which represents monies held in escrow for streetscape project.
 - (III) Unrestricted net position of \$1,708,855 represents the portion of assets available to maintain the Town's continuing obligations to its citizens and creditors.
- The Town's governmental activities reported a total ending unrestricted net position of \$984,012 this fiscal year. This compares to the prior year ending unrestricted net position of \$739,274 reflecting an increase of \$244,738.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of \$724,843 compared to \$701,643 reported for the prior fiscal year, an increase of \$23,200.

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

**The Burgess and Commissioners of Middletown, Maryland
Management's Discussion and Analysis
For the Year Ended June 30, 2025**

accounting"). Thus, the 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.

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 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.

**The Burgess and Commissioners of Middletown, Maryland
Management’s Discussion and Analysis
For the Year Ended June 30, 2025**

Budgetary comparison schedules for the general fund are included in the reporting package as required supplementary information to the basic financial statements.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

Financial Analysis of the Town as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole. The Town's net position (i.e., assets in excess of liabilities) at the fiscal year-end is \$25,140,799. This is a \$518,677 increase over last year's net assets of \$24,622,122. The following table provides a summary of the Town's net position on June 30, 2025, and 2024:

**Table 1
Town of Middletown**

For years ended June 30,	Governmental Activities		Business-Type Activities		Total		Change
	2025	2024	2025	2024	2025	2024	
Assets							
Current Assets	\$ 3,892,228	\$ 1,435,140	\$ 1,262,653	\$ 1,333,160	\$ 5,154,881	\$ 2,768,300	\$ 2,386,581
Capital Assets	12,802,381	11,959,828	16,824,905	16,537,086	29,627,286	28,496,914	1,130,372
Leased Receivable	-	-	237,652	246,201	237,652	246,201	(8,549)
Total Assets	<u>16,694,609</u>	<u>13,394,968</u>	<u>18,325,210</u>	<u>18,116,447</u>	<u>35,019,819</u>	<u>31,511,415</u>	<u>3,508,404</u>
Deferred outflows of resources	<u>486,023</u>	<u>352,619</u>	<u>206,864</u>	<u>168,272</u>	<u>692,887</u>	<u>520,891</u>	<u>171,996</u>
Total Assets and Deferred outflows of resources	<u>17,180,632</u>	<u>13,747,587</u>	<u>18,532,074</u>	<u>18,284,719</u>	<u>35,712,706</u>	<u>32,032,306</u>	<u>3,680,400</u>
Liabilities							
Current & other liabilities	659,514	442,841	331,969	282,487	991,483	725,328	266,155
Net pension liability	960,187	650,958	430,232	315,859	1,390,419	966,817	423,602
Long-term liabilities	4,386,871	1,555,743	3,357,992	3,472,544	7,744,863	5,028,287	2,716,576
Total Liabilities	<u>6,006,572</u>	<u>2,649,542</u>	<u>4,120,193</u>	<u>4,070,890</u>	<u>10,126,765</u>	<u>6,720,432</u>	<u>3,406,333</u>
Deferred inflows of resources	<u>109,782</u>	<u>124,108</u>	<u>335,360</u>	<u>565,644</u>	<u>445,142</u>	<u>689,752</u>	<u>(244,610)</u>
Total Liabilities and Deferred inflows of resources	<u>6,116,354</u>	<u>2,773,650</u>	<u>4,455,553</u>	<u>4,636,534</u>	<u>10,571,907</u>	<u>7,410,184</u>	<u>3,161,723</u>
Net Position							
Invested in capital assets, net of related debt	8,155,995	10,234,663	13,351,678	12,946,542	21,507,673	23,181,205	(1,673,532)
Restricted	1,924,271	-	-	-	1,924,271	-	1,924,271
Unrestricted	984,012	739,274	724,843	701,643	1,708,855	1,440,917	267,938
Total Net Position	<u>\$ 11,064,278</u>	<u>\$ 10,973,937</u>	<u>\$ 14,076,521</u>	<u>\$ 13,648,185</u>	<u>\$ 25,140,799</u>	<u>\$ 24,622,122</u>	<u>\$ 518,677</u>

Governmental activities include assets such as the town hall, streets, 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.

**The Burgess and Commissioners of Middletown, Maryland
Management's Discussion and Analysis
For the Year Ended June 30, 2025**

Budget to Actual Comparison – General Fund

As presented in the required supplementary information section of the financial statements, for the year ending June 30, 2025, the total budgeted revenues for the General Fund were \$4,294,130 and actual revenues were \$4,886,019, for variance of \$578,659. This variance is mostly the result of grant revenues coming in approximately \$265,000 higher than anticipated, our local income taxes coming in approximately \$162,000 higher than anticipated and our planning and zoning fees coming in \$51,000 higher than anticipated. Program Open Space Grant applications by fiscal year are pending State approval before projects can be started thus causing a delay in recognizing grant revenue in fiscal years in which they are applied. Local income tax revenues fluctuate year to year depending on residents' income levels. A new school for Middletown Middle and Elementary school began during the fiscal year causing the plan review fees to increase.

The total budgeted expenditure for the General Fund was \$5,975,051 and the actual expenditures were \$5,745,640 for a variance of \$229,411. The majority of this variance is due to the capital outlay projects not getting started as early as anticipated within parks and recreation.

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, 2025, the Town's unassigned governmental fund balance increased by \$366,605 to a balance of \$1,442,429. 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, 2025, reported a balance of \$724,843, an increase of \$23,200 over prior year.

Governmental Activities

Table 2 shows the Town's revenue and expenses of the governmental and business-type activities for the years ended June 30, 2025 and 2024. As shown, governmental activities increased the Town's net position by \$90,341 representing 17% 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 \$384,504, or 66%. The Town's revenues from governmental activities totaled \$4,962,091, for the fiscal year ended June 30, 2025. Revenue from taxes represented 87% of total revenue. The major sources of tax revenue for the Town were real estate and personal property taxes of \$1,686,927, state income and highway user taxes of \$1,827,723 and county taxes of \$789,316.

**The Burgess and Commissioners of Middletown, Maryland
Management's Discussion and Analysis
For the Year Ended June 30, 2025**

The Town's expenditures from governmental activities totaled \$4,871,750 for the fiscal year ended June 30, 2025. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,981,394 or 41% and public works is the second largest expense at \$1,489,351 or 31%.

Business-type Activities

Referring to Table 2, the Town's business-type activities include the water and sewer funds and those activities increased the Town's net position by \$428,336 for the fiscal year ended June 30, 2025. The major sources of revenue are utility service charges for both water and sewer which was \$1,993,898 or 74% of total revenues.

**Table 2
Changes in the Town of
Middletown's Net Position**

Fiscal years ended June 30,	Governmental Activities		Business-Type Activities		Total		Change
	2025	2024	2025	2024	2025	2024	
Revenues							
General revenues							
Property taxes	\$ 1,686,927	\$ 1,584,077	\$ -	\$ -	\$ 1,686,927	\$ 1,584,077	\$ 102,850
Income taxes	1,486,575	1,397,526	-	-	1,486,575	1,397,526	89,049
County taxes	789,316	755,387	-	-	789,316	755,387	33,929
Other income	70,019	32,143	235,029	153,290	305,048	185,433	119,615
Interest income	12,345	20,212	31,899	30,599	44,244	50,811	(6,567)
Program revenues							
Charges for Service	161,991	158,672	1,993,898	2,013,903	2,155,889	2,172,575	(16,686)
Operating Grants & Contributions	379,965	336,203	-	33,544	379,965	369,747	10,218
Capital Grants & Contributions	374,953	364,148	443,982	298,876	818,935	663,024	155,911
Total Revenues	4,962,091	4,648,368	2,704,808	2,530,212	7,666,899	7,178,580	488,319
Expenditures							
General government	1,981,394	1,723,902	-	-	1,981,394	1,723,902	257,492
Public safety	424,870	409,325	-	-	424,870	409,325	15,545
Parks & recreation	330,932	236,453	-	-	330,932	236,453	94,479
Public works	1,489,351	1,355,424	-	-	1,489,351	1,355,424	133,927
Economic Development	119,796	112,169	-	-	119,796	112,169	7,627
Miscellaneous	453,754	360,478	-	-	453,754	360,478	93,276
Interest expense	71,653	66,113	134,533	149,724	206,186	215,837	(9,651)
Water & sewer utilities	-	-	2,141,939	2,182,557	2,141,939	2,182,557	(40,618)
Total Expenditures	4,871,750	4,263,864	2,276,472	2,332,281	7,148,222	6,596,145	552,077
Net Position							
Change in net position	90,341	384,504	428,336	197,931	518,677	582,435	(63,758)
Beginning net position	10,973,937	10,589,433	13,648,185	13,450,254	24,622,122	21,944,956	2,677,166
Total Net Position	\$11,064,278	\$10,973,937	\$14,076,521	\$13,648,185	\$25,140,799	\$22,527,391	\$2,613,408

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, 2025, was \$29,627,285, net of depreciation. This investment includes land, buildings, improvements, water and sewer distribution systems, roads and sidewalks, machinery and equipment and construction in progress. More detailed information regarding the Town's capital assets can be found in Notes 1 and 4 of the financial statements.

**The Burgess and Commissioners of Middletown, Maryland
Management’s Discussion and Analysis
For the Year Ended June 30, 2025**

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

- Remsberg Park Pickleball Courts- \$502,043
- Harris Farm Property Acquisition - \$743,798
- Wiles Branch Stream Restoration - \$538,782
- Spring Line Replacement - \$604,212

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, 2025 and 2024 was \$29,627,285 and \$28,496,914, 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)

	Governmental Activities		Business-Type Activities		Total		Change
	2025	2024	2025	2024	2025	2024	
Non-Depreciable Assets							
Land	\$ 3,837,515	\$ 3,837,515	\$ 403,196	\$ 403,196	\$ 4,240,711	\$ 4,240,711	\$ -
Construction in progress	200,890	515,381	531,790	294,649	732,680	810,030	(77,350)
Total Non-Depreciable Assets	<u>4,038,405</u>	<u>4,352,896</u>	<u>934,986</u>	<u>697,845</u>	<u>4,973,391</u>	<u>5,050,741</u>	<u>(77,350)</u>
Depreciable Assets							
Buildings & Improvements	462,616	514,378	903	1,690	463,519	516,068	(52,549)
Infrastructure	7,998,185	6,627,656	15,467,292	15,438,029	23,465,477	22,065,685	1,399,792
Equipment	244,135	379,618	421,723	399,522	665,858	779,140	(113,282)
Right-to-use asset - leased equipment	59,040	85,280	-	-	59,040	85,280	(26,240)
Total Depreciable Assets	<u>8,763,976</u>	<u>7,606,932</u>	<u>15,889,918</u>	<u>15,839,241</u>	<u>24,653,894</u>	<u>23,446,173</u>	<u>1,207,721</u>
Total Capital Assets -Net	<u>\$12,802,381</u>	<u>\$11,959,828</u>	<u>\$16,824,904</u>	<u>\$16,537,086</u>	<u>\$ 29,627,285</u>	<u>\$ 28,496,914</u>	<u>\$ 1,130,371</u>

Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$8,119,613. The Town borrowed \$3,103,683 through two Series A bonds and a promissory note payable during the fiscal year ended June 30, 2025. The proceeds from these borrowings went towards acquiring Harris Farm and the costs associated for infrastructure projects related to stream restoration and street improvements. Refer to Notes 4 and 8 to the financial statements for more detailed information.

**The Burgess and Commissioners of Middletown, Maryland
Management’s Discussion and Analysis
For the Year Ended June 30, 2025**

**Table 4
Town of Middletown's
Long-Term Debt**

	Governmental Activities		Business-Type Activities		Total		Change
	2025	2024	2025	2024	2025	2024	
Infrastructure bonds- street expansion	\$ 17,500	\$ 34,500	\$ -	\$ -	\$ 17,500	\$ 34,500	\$ (17,000)
Infrastructure bonds- street improvements	1,466,000	1,585,500	-	-	1,466,000	1,585,500	(119,500)
Infrastructure bonds- street improvements	1,903,179	-	-	-	1,903,179	-	1,903,179
Infrastructure bonds- storm water management	504,698	-	-	-	504,698	-	504,698
Promissory Note - Harris	566,078	-	-	-	566,078	-	-
Capital lease equipment	53,226	82,778	-	-	53,226	82,778	(29,552)
Infrastructure bonds- water distribution	-	-	3,487,000	3,605,000	3,487,000	3,605,000	(118,000)
Net unamortized bond premiums & discounts	<u>135,705</u>	<u>22,387</u>	<u>(13,773)</u>	<u>(14,456)</u>	<u>121,932</u>	<u>7,931</u>	<u>114,001</u>
Total Long-Term Debt	\$ 4,646,386	\$ 1,725,165	\$ 3,473,227	\$ 3,590,544	\$ 8,119,613	\$ 5,315,709	\$ 2,237,826

Economic Environment

As the Town transitioned to a new Town Administrator in March 2025, operational and strategic priorities are being evaluated and assessed to strengthen the financial foundation of the Town. Over the past year, the Town has completed several infrastructure projects including, replacing a section of a spring line that is over 100 years old, restored the stream at Wiles Branch Park and installed pickleball courts and Remsberg park. In addition, the Town acquired and annexed 31 acres of property adjacent to Wiles Branch Park through funds received from Program Open Space.

The General Fund operating expenditures budget for FY26 is \$4,709,072, an increase of 9.38% over the prior year. The increase is due, in large part, to increased tax revenues that was derived from the increase in assessments of the residents property. IN FY26, the Town plans on finishing a streetscape project that will cost approximately \$1.9 million using loan proceeds Maryland Housing and Community Development. That loan is scheduled to be paid off over the next 20 years, which helps free up operational dollars to combat the increases associated with inflation, insurance and salaries.

The Town is focused on getting the Water and Sewer operations to become more self-sustaining as state and federal funding may be limited or inconsistent. The Town anticipates the need to adjust water and sewer rates in the near and long term to cover rising operating costs, utility billing expenses, and employee salaries. During the year, the utility billing software was upgraded from an antiquated platform to allow for more enhanced features for billing residences for services. The new system provides customers with the ability to submit payments and see their usage activity of their account through an online portal. The Town plans to further evaluate the impact of these associated transaction processing fees and the overall Water and Sewer operations to inform future discussions regarding potential water and sewer rate adjustments.

**The Burgess and Commissioners of Middletown, Maryland
Management's Discussion and Analysis
For the Year Ended June 30, 2025**

Similarly, the General Fund faces ongoing cost pressures, including potential staffing needs within the Public Works and Finance departments with impending retirements within the workforce. To address these rising expenses, the Town is evaluating all available revenue and cost-recovery options. These considerations include potential adjustments to property tax rates and the implementation or expansion of user fees, such as charges for services including trash collection, to support essential operations and key staffing requirements.

PFAS, or per- and polyfluoroalkyl substances, also known as "forever chemicals," have been identified by the Environmental Protection Agency and the Maryland Department of the Environment as carcinogenic. PFAS are a group of over 4,000 human-made chemicals, used in consumer products and manufacturing since the 1940s, that have been detected in the Town's water supply and wastewater treatment systems. State and Federal mandates to remove PFAS from drinking water and wastewater systems are imminent and required testing has begun. The cost of the new treatment infrastructure is expected to be more than \$1 million. The Town has received a grant through the Maryland Department of the Environment (MDE) in the amount of \$925,000 to fund the planning, design, and construction of PFAS filtration infrastructure, for the Wiles Branch Water Treatment Plant. The Town will continue to apply for these types of grants to help offset the costs associated with mitigating PFAS levels in other water sources.

The Burgess & Commissioners will continue to work in cooperation with staff and the residents to make the best financial decisions possible for the betterment of the Town and the citizens of Middletown.

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, MARYLAND
Statement of Net Position
June 30, 2025

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 1,572,110	\$ 701,713	\$ 2,273,823
Restricted cash - bond escrow	1,924,271	-	1,924,271
Receivables			
Due from customers	-	457,747	457,747
Taxes receivable	1,588	-	1,588
Due from other governments	375,855	-	375,855
Due from others	-	76,053	76,053
Lease receivable - current	-	8,551	8,551
Prepaid expenses	18,404	18,589	36,993
Capital assets			
Capital assets, net of accumulated depreciation	12,601,491	16,293,115	28,894,606
Construction in progress	200,890	531,790	732,680
Capital assets, net	12,802,381	16,824,905	29,627,286
Lease receivable - noncurrent	-	237,652	237,652
Total Assets	16,694,609	18,325,210	35,019,819
Deferred Outflows of Resources			
Deferred outflows of resources related to pension	486,023	206,864	692,887
Total Assets and Deferred Outflows of Resources	17,180,632	18,532,074	35,712,706
Liabilities			
Accounts payable	\$ 202,031	\$ 114,602	\$ 316,633
Accrued operating expenses	94,369	56,313	150,682
Accrued compensated absences	87,061	37,926	124,987
Other accrued liabilities	-	4,128	4,128
Current maturities of long-term debt	276,053	119,000	395,053
Noncurrent liabilities			
Compensated absences - long term	16,538	3,765	20,303
Net pension liability	960,187	430,232	1,390,419
Long-term debt	4,370,333	3,354,227	7,724,560
Total Liabilities	6,006,572	4,120,193	10,126,765
Deferred Inflows of Resources			
Deferred inflows of resources	109,782	335,360	445,142
Total Liabilities and Deferred Inflows of Resources	6,116,354	4,455,553	10,571,907
Net Position			
Invested in capital assets - net of related debt	8,155,995	13,351,678	21,507,673
Restricted	1,924,271	-	1,924,271
Unrestricted	984,012	724,843	1,708,855
Total Net Position	\$ 11,064,278	\$ 14,076,521	\$ 25,140,799

The accompanying notes are an integral part of this statement.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Statement of Activities
For the Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ (1,981,394)	\$ 147,406	\$ 33,555	\$ -	\$ (1,800,433)	\$ -	\$ (1,800,433)
Public works	(1,489,351)	12,000	341,148	-	(1,136,203)	-	(1,136,203)
Public safety	(424,870)	-	5,262	374,953	(44,655)	-	(44,655)
Parks & recreation	(330,932)	2,585	-	-	(328,347)	-	(328,347)
Economic development	(119,796)	-	-	-	(119,796)	-	(119,796)
Miscellaneous	(453,754)	-	-	-	(453,754)	-	(453,754)
Interest expense	(71,653)	-	-	-	(71,653)	-	(71,653)
Total governmental activities	<u>(4,871,750)</u>	<u>161,991</u>	<u>379,965</u>	<u>374,953</u>	<u>(3,954,841)</u>	<u>-</u>	<u>(3,954,841)</u>
Business-type activities							
Water and sewer services	(2,276,472)	1,993,898	-	443,982	-	161,408	161,408
Total business-type activities	<u>(2,276,472)</u>	<u>1,993,898</u>	<u>-</u>	<u>443,982</u>	<u>-</u>	<u>161,408</u>	<u>161,408</u>
Total primary government	<u>\$ (7,148,222)</u>	<u>\$ 2,155,889</u>	<u>\$ 379,965</u>	<u>\$ 818,935</u>	<u>(3,954,841)</u>	<u>161,408</u>	<u>(3,793,433)</u>
General Revenues							
Taxes							
Property					1,686,927	-	1,686,927
Income					1,486,575	-	1,486,575
County shared					789,316	-	789,316
Other local taxes					41,395	-	41,395
Rental income					21,102	141,914	163,016
Other income					7,522	93,115	100,637
Interest income					12,345	31,899	44,244
Total general revenues					<u>4,045,182</u>	<u>266,928</u>	<u>4,312,110</u>
Change in net position					90,341	428,336	518,677
Net position - beginning of year					<u>10,973,937</u>	<u>13,648,185</u>	<u>24,622,122</u>
Net position - end of year					<u>\$ 11,064,278</u>	<u>\$ 14,076,521</u>	<u>\$ 25,140,799</u>

The accompanying notes are an integral part of this statement.

BURGESS AND COMMISSIONERS OF MIDDLETOWN , MARYLAND
Balance Sheet
Governmental Fund
June 30, 2025

Assets

Cash and cash equivalents	\$	1,572,110
Restricted cash - bond escrow		1,924,271
Taxes receivable		1,588
Due from other governments		375,855
Prepaid expenses		18,404

Total Assets \$ 3,892,228

**Liabilities, Deferred Inflows of Resources,
and Fund Balances**

Liabilities

Accounts payable	\$	202,031
Accrued operating expenses		80,858
Total Liabilities		<u>282,889</u>

Deferred Inflows of Resources

Unearned revenue - intergovernmental		46,515
Unavailable revenue - intergovernmental		177,720

Total Liabilities and Deferred Inflows of Resources 507,124

Fund Balances

Nonspendable:

Prepaid expenses		18,404
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Assigned to:

Community events		24,131
Restricted - unspent bond proceeds		1,924,271
Unassigned		1,418,298

Total Fund Balances 3,385,104

**Total Liabilities, Deferred Inflows of Resources,
and Fund Balances** \$ 3,892,228

BURGESS AND COMMISSIONERS OF MIDDLETOWN , MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2025

	General	Total Governmental Fund
Revenues		
Local property taxes	\$ 1,686,927	\$ 1,686,927
Local income taxes	1,486,575	1,486,575
Other local taxes	41,395	41,395
Intergovernmental revenues	1,468,162	1,468,162
Service charges	24,594	24,594
Licenses & permits	137,397	137,397
Interest income	12,345	12,345
Rental income	21,102	21,102
Other revenue	7,522	7,522
Total Revenues	4,886,019	4,886,019
Expenditures		
General government	1,831,351	1,831,351
Public works	1,743,833	1,743,833
Public safety	424,870	424,870
Parks & recreation	1,031,631	1,031,631
Economic development	119,796	119,796
Miscellaneous	338,774	338,774
Debt service	255,385	255,385
Total Expenditures	5,745,640	5,745,640
Deficiency of Revenues under Expenditures	(859,621)	(859,621)
Other Financing Sources		
Proceeds from new debt	3,103,683	3,103,683
Total other financing sources	3,103,683	3,103,683
Excess of Revenues over Expenditures & other financing sources	2,244,062	
Fund Balance - July 1, 2024	1,141,042	
Fund Balance - June 30, 2025	\$ 3,385,104	
Adjustments for the Statement of Activities		
Capital outlay		1,543,661
Depreciation and amortization expense		(701,106)
Compensated absences		(37,417)
Debt service expenditures		179,973
Change in interest accrual		1,276
Debt proceeds		(3,103,683)
Increase in deferred inflows - unavailable revenue		76,072
Amortization of bond premium		2,483
Net pension adjustment		(114,980)
Change in Net Position of Governmental Activities		\$ 90,341

The accompanying notes are an integral part of this statement.
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BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Reconciliation of Fund Balance to Net Position of Governmental Activities
June 30, 2025

Fund balances - governmental funds	\$ 3,385,104
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, therefore are not reported in the funds.	12,802,381
Accrued interest payable does not require the use of current resources and therefore are not reported as a liability in the governmental fund.	(13,511)
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund.	
Compensated absences	(103,599)
Net pension liability	(960,187)
Long-term debt obligations	(4,646,386)
Unamortized deferred outflows of resources - pensions	486,023
Unamortized deferred inflows of resources - pensions	(63,267)
Deferred inflows of resources - unavailable grant revenue	<u>177,720</u>
Net position - governmental activities	<u><u>\$ 11,064,278</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN , MARYLAND
Statement of Net Position
Proprietary Fund - Water and Sewer
June 30, 2025

Assets

Current Assets	
Cash and cash equivalents	\$ 701,713
Due from customers	457,747
Due from others	76,053
Lease receivable - current	8,551
Prepaid expenses	<u>18,589</u>
Total Current Assets	<u>1,262,653</u>
Non Current Assets	
Capital Assets	
Capital assets - net of accumulated depreciation	16,293,115
Construction in progress	<u>531,790</u>
Total capital assets, net	<u>16,824,905</u>
Lease receivable - noncurrent	<u>237,652</u>
Total Noncurrent Assets	<u>17,062,557</u>

Deferred Outflows of Resources

Deferred outflows of resources related to pension	<u>206,864</u>
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Total Assets and Deferred Outflows of Resources

18,532,074

Liabilities

Current Liabilities	
Accounts payable	\$ 114,602
Accrued operating expenses	56,313
Other accrued liabilities	4,128
Compensated absences - current	37,926
Current maturities of long-term debt	<u>119,000</u>
Total Current Liabilities	<u>331,969</u>
Noncurrent Liabilities	
Compensated absences - long term	3,765
Net pension liability	430,232
Long-term debt - net of current maturities	<u>3,354,227</u>
Total Noncurrent Liabilities	<u>3,788,224</u>
Total Liabilities	4,120,193

Deferred Inflows of Resources

Deferred inflows of resources	<u>335,360</u>
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Total Liabilities and Deferred Inflows of Resources

4,455,553

Net Position

Invested in capital assets - net of related debt	13,351,678
Unrestricted	<u>724,843</u>

Total Net Position

\$ 14,076,521

The accompanying notes are an integral part of this statement.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund - Water and Sewer
For the Year Ended June 30, 2025

Operating Revenues

Charges for services	
Water fees	\$ 823,603
Sewer fees	751,527
Rental income	<u>141,914</u>
Total Operating Revenues	1,717,044

Operating Expenses

Salaries	632,357
Sewer system expenses	343,229
Depreciation and amortization	705,821
Water system expenses	221,462
Vehicles and equipment	41,087
Administrative	<u>197,983</u>
Total Operating Expenses	<u>2,141,939</u>

Operating loss (424,895)

Nonoperating Income (Expenses)

Capital improvement fees	\$ 418,768
Intergovernmental revenues - capital grants	443,982
Interest income	31,899
Other non-operating revenues	93,115
Interest expense	<u>(134,533)</u>
	<u>853,231</u>

Change in Net Position	428,336
Net Position, beginning of year	<u>\$ 13,648,185</u>
Net Position, end of year	<u><u>\$ 14,076,521</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Statement of Cash Flows
Proprietary Fund - Water and Sewer
For the Year Ended June 30, 2025

Cash flows from operating activities

Cash received from charges for services	\$ 1,552,523
Cash received from lessees	149,479
Cash received from others	42,703
Cash payments for goods & services	(740,508)
Cash payments to employees for services	<u>(596,347)</u>
Net cash provided by operating activities	<u>407,850</u>

Cash flows from capital and related financing activities

Purchases of property & equipment and current year construction costs	(993,641)
Cash received from other governments - capital grants	252,020
Principal paid on long-term debt	(118,000)
Proceeds from surcharge fees	418,768
Interest paid	(135,641)
Other cash received	<u>93,115</u>
Net cash used in capital and related financing activities	<u>(483,379)</u>

Cash flows from investing activities

Investment income	<u>31,899</u>
Net decrease in cash, cash equivalents	(43,630)
Cash and cash equivalents - beginning of year	<u>745,343</u>
Cash and cash equivalents - end of year	<u>\$ 701,713</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Statement of Cash Flows
Proprietary Fund - Water and Sewer
For the Year Ended June 30, 2025

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (424,895)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation & amortization	705,821
Amortization of bond discount	683
Changes in operating assets and liabilities:	
Customer accounts receivable	(22,607)
Other receivables	42,703
Lease receivable	7,565
Prepaid expenses	7,765
Deferred outflows of resources	(38,592)
Accounts payable	54,805
Accrued operating expenses	(1,449)
Net pension liability	114,373
Deferred inflows of resources	(38,322)
Net cash provided by operating activities	<u>\$ 407,850</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Burgess and Commissioners of Middletown, Maryland (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, parks and recreation, economic development, 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.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Town have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing U.S. governmental accounting and financial reporting principles.

The 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 and intergovernmental revenues. 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, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurements focus is upon determination of changes in financial position, rather than upon net income determination.

The Town has one major governmental fund. The general fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some separate fund are accounted for in this fund.

Proprietary Fund Types: Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

An enterprise fund is used to finance and account for the acquisition, operation, and maintenance of the Town's facilities and services which are supported primarily by user charges. The Water and Sewer Fund accounts for the operation and maintenance of the water and sanitary sewer system.

Cash Equivalents

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

Investments

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Significant receivables include amounts from customers primarily for utility services. An account receivable is considered to be past due if any portion of the receivable is outstanding for more than 30 days. Amounts due from other governments include reimbursements from the State and County for intergovernmental revenues and grant awards.

For the year ended June 30, 2025, the Town determined that no allowance for uncollectible accounts was necessary, as all receivables are deemed collectible.

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 \$5,000 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.

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 and improvements	20 to 25 Years
Machinery and equipment	10 Years
Vehicles	10 Years
Water and sewer systems	10 to 40 Years
Springs	40 Years

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inter-fund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as internal balances on the statement of net position. Short-term interfund loans are classified as "interfund receivables/payables." Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Retirement Plan

Eligible Burgess and Commissioners of Middletown, Maryland 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.

Change in Accounting Principle – Implementation of GASB Statement No.101

Effective for the fiscal year beginning July 1, 2024, the Town implemented GASB Statement No. 101, Compensated Absences. This Statement revises the recognition and measurement criteria for employee leave benefits. Under GASB 101, a liability is recognized when (1) the leave is attributable to services already rendered, (2) the leave accumulates, and (3) it is more likely than not that the leave will be used or otherwise paid or settled. The liability is measured using pay rates in effect at the financial statement date and incorporates historical leave usage patterns and applicable salary-related payments.

Compensated Absences

Following the implementation of GASB 101, the Town now calculates a liability for sick leave in accordance with applicable policies governing leave carryforward and payout provisions. When a policy allows sick leave to accumulate, the Town is required to estimate a liability for leave that is more likely than not to be used in a future period.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town's sick leave liability estimate is derived from historical usage patterns of current employees to calculate a weighted average of sick days used per year. The estimated days more than likely to be used in the future is calculated by comparing sick days used during service years to the remaining balance of sick leave at the end of the fiscal year. The liability is measured using the employee's daily pay rate at fiscal year-end, applied to the lesser of (a) the estimated sick days more than likely to be used in a future period or (b) the accrued sick day balance.

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.

Impact of Adoption

Implementation of GASB 101 required the Town to apply the new standard retrospectively to the extent practicable. The revised "more-likely-than-not" threshold for sick leave and the inclusion of salary-related costs resulted in an overall immaterial addition to the compensated absences liability balance and was deemed to be immaterial as of July 1, 2024 for a beginning restatement to net position.

Equity Classifications

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- **Invested in capital assets:** consists of capital assets net of accumulated depreciation and related debt.
- **Restricted net position:** consists of funds whose use by the Town has been limited by creditors to a specific time period or purpose.
- **Unrestricted net position:** all other net position that do not meet the definition of "invested in capital assets" or "restricted net position".

The Town's policy regarding an expense for which both restricted and unrestricted net position is available is to first apply the restricted resources. Unrestricted resources are used only to the extent that restricted resources do not cover the incurred expenditure.

In the governmental fund financial statements, equity is to be classified as fund balance and displayed in each of the applicable five components as prescribed by GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions:

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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. Restricted fund balance at year-end represents unspent bond proceeds.
- **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 (Burgess and Commissioners) 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.

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, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Property 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. The Town's property tax rates are enacted by the Burgess and Commissioners.

Total assessed value on which levies were made for the year ended June 30, 2025 was \$716,178,410. The property tax rate was \$.232 per \$100 of assessed value.

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. Appropriations for annually budgeted funds lapse at fiscal year-end.

NOTE 3- RISKS AND UNCERTAINTIES

Risk Management

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.

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's general liability risks are financed through the Town's participation in the Local Government Insurance Trust (LGIT). The Town pays an annual premium to LGIT for its general insurance coverage. The Town has coverage of \$1,000,000 for each occurrence under commercial general liability and automobile liability. The annual aggregate limit is \$3,000,000 under the commercial policy and is the most the Trust will pay

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 3- RISKS AND UNCERTAINTIES (Continued)

under the Town's agreement. In addition, the Town carries property insurance limited to \$14,705,998. The Town continues to carry commercial insurance for employee health, accident insurance and workers compensation. Settled claims resulting from these risks have not exceeded insurance coverage, and no significant reductions in insurance coverage have occurred in any of the past three fiscal years.

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. 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 2025, the Town did not receive any refund of premiums.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments exists when, in the event of the failure of the counterparty to a transaction, a government may be unable to recover the value of investment or collateral securities that are in the possession of an outside party.

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.

As of year-end, the Town's carrying amount of deposits was \$2,273,823; the bank balance was \$2,355,512 and cash on hand was \$200. The Town's deposits were fully covered by the Federal Deposit Insurance Corporation and collateral held by the pledging financial institutions as of June 30, 2025.

Included in cash and cash equivalents, the Town had \$129,085 invested in the Maryland Local Government Investment Pool (MLGIP) as of June 30, 2025. These accounts are not insured by the FDIC. However, the MLGIP has pledged securities as collateral for the money market funds. The interest rate in the MLGIP fluctuates throughout the year. The applicable interest rate as of June 30, 2025 was 5.36% for the MLGIP.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 4- CAPITAL ASSETS

A summary of changes in capital assets for governmental activities for the year ended June 30, 2025 are as follows:

	Balances <u>1-Jul-24</u>	<u>Additions</u>	<u>Disposals</u>	Transfers & <u>Adjustments</u>	Balances <u>30-Jun-25</u>
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated					
Land	\$ 3,837,515	\$ -	\$ -	\$ -	\$ 3,837,515
Construction in progress	<u>515,381</u>	<u>1,531,428</u>	<u>-</u>	<u>(1,845,919)</u>	<u>200,890</u>
Total capital assets not being depreciated	4,352,896	1,531,428	-	(1,845,919)	4,038,405
Capital assets being depreciated					
Buildings & improvements	1,217,996	-	-	411,571	1,629,567
Infrastructure	12,541,864	-	-	1,409,189	13,951,053
Equipment	1,513,599	12,233	-	25,159	1,550,991
Right-to-use asset; leased equipment	<u>180,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,397</u>
Total capital assets being depreciated	15,453,856	12,233	-	1,845,919	17,312,008
Less accumulated depreciation and amortization					
Buildings & improvements	1,114,223	52,728			1,166,951
Equipment	1,252,656	54,200			1,306,856
Infrastructure	5,384,928	567,940			5,952,868
Right-to-use asset; leased equipment	<u>95,117</u>	<u>26,240</u>	<u>-</u>	<u>-</u>	<u>121,357</u>
Total accumulated depreciation and amortization	<u>7,846,924</u>	<u>701,108</u>	<u>-</u>	<u>-</u>	<u>8,548,032</u>
Governmental Activities, Capital Assets - Net	<u>\$ 11,959,828</u>	<u>\$ 842,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,802,381</u>

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

Governmental activities:	
Public services	\$ 460,298
General government	135,924
Parks & recreation	<u>104,884</u>
Total governmental activities	<u>\$ 701,106</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 4- CAPITAL ASSETS (Continued)

A summary of changes in capital assets for business-type activities for the year ended June 30, 2025 are as follows:

	Balances <u>1-Jul-24</u>	<u>Additions</u>	<u>Disposals</u>	Transfers & <u>Adjustments</u>	Balances <u>30-Jun-25</u>
BUSINESS-TYPE ACTIVITIES					
Capital assets not being depreciated					
Land	\$ 403,196				\$ 403,196
Construction in progress	<u>294,649</u>	<u>901,340</u>	<u>-</u>	<u>(664,199)</u>	<u>531,790</u>
Total capital assets not being depreciated	697,845	901,340	-	(664,199)	934,986
Capital assets being depreciated					
Infrastructure	26,618,163	40,362	-	664,199	27,322,724
Buildings & improvements	32,675	-	-	-	32,675
Equipment	<u>694,432</u>	<u>51,939</u>	<u>(33,472)</u>	<u>-</u>	<u>712,899</u>
Total capital assets being depreciated	27,345,270	92,301	(33,472)	664,199	28,068,298
Less accumulated depreciation for					
Infrastructure	11,180,136	675,296	-	-	11,855,432
Buildings & improvements	30,985	787	-	-	31,772
Equipment	<u>294,910</u>	<u>29,738</u>	<u>(33,472)</u>	<u>-</u>	<u>291,176</u>
Total accumulated depreciation	<u>11,506,031</u>	<u>705,821</u>	<u>(33,472)</u>	<u>-</u>	<u>12,178,380</u>
Business-Type Activities, Capital Assets - Net	<u>\$ 16,537,084</u>	<u>\$ 287,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,824,904</u>

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

Business type activities:
Water & sewer utilities \$ 705,821

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 5- LEASE RECEIVABLE & LESSOR AGREEMENT

The Town executed a lease agreement with Comcast for the rental of certain real property of the Town, which commenced January 1, 2010. The terms of this agreement included annual payments of \$13,000, escalating 3% annually and terming on December 31, 2019. In December 2019, an amendment was executed which extended the term through December 31, 2024 with the first annual payment to be \$17,471, escalating 3% annually. The agreement provided an option to extend the lease for up to three additional five year periods on the same terms and conditions, including that the rent continues to increase three percent (3%) annually for each extended lease year. The Town is reasonably certain this extension period will be granted and is reflected in the net present value of the lease. This lease agreement is recognized in the Enterprise Fund of the Town.

The Town used the payment schedule in the above executed agreement, including the lease extension period, to measure the lease receivable as of July 1, 2021. In addition, the lease receivable was discounted to a net present value at July 1, 2021 using a 5.00% interest rate, the estimated incremental borrowing rate of the Town.

For the year ended June 30, 2025, the Sewer Fund recognized \$15,818 in lease revenue and \$12,688 related to lease payments received from this lease. As of year-end, \$246,203 is reported as a lease receivable and \$218,739 as a deferred inflows of resources of the Enterprise Fund. Future payments due to the Town under the agreement is as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>
2026	\$ 8,551	\$ 12,310
2027	9,604	11,883
2028	10,730	11,402
2029	11,930	10,866
2030	13,210	10,269
2030-2034	\$ 88,389	40,006
2035-2039	<u>103,790</u>	<u>13,501</u>
	<u>\$ 246,203</u>	<u>\$ 110,238</u>

NOTE 6- LINE OF CREDIT

The Town has a revolving line of credit totaling \$2 million, bearing interest at prime minus 1.00% (6.5% at June 30, 2025). The Town did not borrow any funds from the line of credit during the year ended June 30, 2025. There was no outstanding balance at year-end. The line of credit matures on March 1, 2027.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 7- LEASING ARRANGEMENTS

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.

In January 2022, the Town entered into a new 36 month lease agreement for office equipment. The agreement requires monthly payments of \$1,310 through December 2024. This agreement qualifies for recognition as a financing lease under GASB 87, as noted above and is valued at a net present value of \$42,637, using a discount rate of 5%, the Town's estimated incremental borrowing rate.

In August 2022, the Town entered into a new 63 month lease agreement for office and IT related equipment. The agreement requires monthly payments of \$3,854 through September 2027. This agreement qualifies for recognition as a financing lease under GASB 87, as noted above and is valued at a net present value of \$137,760, using a discount rate of 5%, the Town's estimated incremental borrowing rate.

The fiscal year transactions as it relates to these leases are included in the long-term debt table.

NOTE 8- LONG TERM DEBT

The Town's long-term debt consisted of bonds and term loans as of June 30, 2025. These debt arrangements are broken into governmental and business-type activities. The long-term debt details are as follows:

Governmental 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 \$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 final payment is due in May 2026.

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%.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 8- LONG TERM DEBT (Continued)

The bond is collateralized by all local government payments, including money, securities, bank deposits, and any other investments and receivables. The final payment is due in April 2035.

The Third Bond Series A is a Local Government Infrastructure Bond from the Maryland Department of Housing and Community Development with a face amount of \$ 1,903,179. This bond is payable in semi-annual installments of principal, ranging from \$63,179 in year one to \$140,000 in the final year, plus interest at rate 4.87%. The bond is collateralized by all local government payments, including money, securities, bank deposits, and any other investments and receivables. The final payment is due in April 2045.

The Fourth Bond Series A is a Local Government Infrastructure Bond from the Maryland Department of Housing and Community Development with a face amount of \$504,698. This bond is payable in semi-annual installments of principal, ranging from \$19,698 in year one to \$35,000 in the final year, plus interest at rate 4.87%. The bond is collateralized by all local government payments, including money, securities, bank deposits, and any other investments and receivables. The final payment is due in April 2045.

In December 2024, the Town entered into a promissory note with a lender for a 32 acre parcel and purchase of the land. The total principal of the note is \$580,000, requiring monthly principal and interest payments of \$4,378 and incurring interest of 4.30%. The final payment is due in December 31, 2039.

Business-Type Activities:

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 bond is collateralized by all revenues, all money held in investments, and all receivables. The final payment is due in April 2045.

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2025.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 8- LONG TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended June 30, 2025:

	Balance July 1, 2024	Increase	Decrease	Balance June 30, 2025	Within One Year
Governmental Activities					
Infrastructure Series A Bond	\$ 34,500	\$ -	\$ (17,000)	\$ 17,500	\$ 17,500
Infrastructure Series A Bond	1,585,500	-	(119,500)	1,466,000	124,000
Infrastructure Series A Bond	-	1,903,179	-	1,903,179	63,179
Infrastructure Series A Bond	-	504,698	-	504,698	19,698
Loan - Harris Property	-	580,000	(13,922)	566,078	28,756
Capital leases payable	82,778	-	(29,552)	53,226	22,920
	1,702,778	2,987,877	(179,974)	4,510,682	276,053
Unamortized bond premium	22,387	-	(2,005)	20,382	-
Unamortized bond premium	-	115,805	(483)	115,323	-
Total Governmental Activities	1,725,165	3,103,683	(182,461)	4,646,387	276,053
Business-type Activities					
Infrastructure Series A Bond	\$ 3,605,000	-	\$ (118,000)	\$ 3,487,000	\$ 119,000
Unamortized bond discount	(14,456)	-	683	(13,773)	-
Total Business-type Activities	3,590,544	-	(117,317)	3,473,227	119,000
Total Long-Term Debt	\$ 5,315,709	\$ 3,103,683	\$ (299,778)	\$ 8,119,613	\$ 395,053

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

	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 276,053	\$ 56,498	\$ 119,000	\$ 130,527
2027	258,610	49,431	125,000	125,767
2028	257,047	43,290	131,000	120,767
2029	251,708	43,238	136,000	116,680
2030	268,142	43,238	141,000	112,383
2031-2035	1,504,529	122,152	775,000	486,555
2036-2040	869,594	8,247	935,000	359,412
2041-2045	825,000	8,247	1,125,000	169,908
	<u>\$ 4,510,682</u>	<u>\$ 374,341</u>	<u>\$ 3,487,000</u>	<u>\$ 1,622,001</u>

Interest Expense

For the year ended June 30, 2025, total interest was \$206,186 and reported as follows: interest expense of \$71,653 for governmental activities and \$134,533 for business-type activities. Cash paid for interest for business-type activities was \$135,641.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 9- RETIREMENT PLAN

Plan Description

The Town contributes to the State Retirement and Pension System of Maryland through the Employee's Contributory Pension System (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.

Membership in the plan is mandatory for active employees of the Town. The plan involves state-wide participation of employees from numerous other state and local governmental units. The system is administered by the Maryland State Retirement Agency pursuant to the Annotated Code of Maryland.

Benefits Provided

Under the Plan, members may retire after 30 years of service or the attainment of age 62 with five years of service, age 63 with four years of service, age 64 with three years of service or age 65 or over with two years of service. 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.

Contributions

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.

Member contributions equate to 2% of annual compensation. The Town is funding the employee contributions under the Maryland Employer Pickup Program and all employee contributions are covered by the employer's pickup program.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 9- RETIREMENT PLAN (Continued)

Plan Costs

At June 30, 2025, the Town reported a liability of \$1,390,419 for its proportionate share of the net pension liability which is an increase of \$426,606 from the previous year's liability. The net pension liability was measured as of June 30, 2024, 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.

For the year ended June 30, 2025, the Town recognized pension expense of \$287,292.

At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Changes in assumptions	\$ 66,739	\$ 3,465
Net difference between projected & actual investment earnings	143,770	66,899
Differences between expected & actual experience	111,691	26,677
Net changes in proportional share	212,647	362
Contributions subsequent to the measurement date	<u>158,040</u>	<u>-</u>
	<u>\$ 692,887</u>	<u>\$ 97,403</u>
Other deferred inflows:		
Unearned grant revenue		129,000
Unearned lease revenue		<u>218,739</u>
		<u>\$ 445,142</u>

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, 2025 reduce net pension liability for the year ended June 30, 2026. Deferred inflows and outflows related to non-investment activity are being amortized over their estimated remaining service life of ranging from 5.45 to 5.72 years. The net difference in investment earnings is being amortized over a closed five-year period.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 9- RETIREMENT PLAN (Continued)

The following table shows the amortization of the related balances:

<u>June 30,</u>	
2025	\$ (103,625)
2026	(145,029)
2027	(89,587)
2028	(69,470)
2029	(29,731)
	<u>\$ (437,442)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2025 was determined by rolling forward the Employees Maryland State Retirement and Pension System's total pension liability as of the June 30, 2024 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Actuarial Valuation Date	June 30, 2024
Inflation	In the 2024 actuarial valuation, 2.5% general, 3% wage In the 2023 actuarial valuation, 2.25% general, 2.75% wage
Salary Increases	In the 2024 actuarial valuation, 3% to 22.5% In the 2023 actuarial valuation, 2.75% to 11.25%
Investment Rate of Return	In the 2024 actuarial valuation, 6.80% In the 2023 actuarial valuation, 6.80%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2024 valuation pursuant to the 2024 experience study for the period July 1, 2018 to June 30, 2023.
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2021 fully generational mortality Improvements scale for males and females.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 9- 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	2024	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	34%	6.0%
Private equity	16%	8.5%
Rate sensitive	20%	2.4%
Credit opportuni	9%	5.4%
Real assets	15%	5.5%
Absolute return	6%	3.9%
	<u>100%</u>	

Discount rate

The discount rate used to measure the total pension liability was 6.80%. This single discount rate was based on the expected rate of return on pension plan investments of 6.80%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 9- RETIREMENT PLAN (Continued)

	1% Decrease	Current Discount Rate	1% Increase
	<u>5.80</u>	<u>6.80</u>	<u>7.80</u>
Town's proportionate share of the net pension liability	<u>\$2,020,753</u>	<u>\$ 1,390,419</u>	<u>\$864,984</u>

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.

NOTE 10- DEFERRED COMPENSATION PLAN

The Town implemented a deferred compensation plan in accordance with Internal Revenue Code Section 457 (b) in January 2024. The 457(b) plan is available to all employees, except crossing guards. This plan is a defined contribution plan and has nine active participants as of June 30, 2025.

The 457(b) plan permits employees to defer a portion of their salary until future years, which the employees are fully vested in upon contribution. Employees can defer up to the lesser of \$23,000, and up to an additional \$7,500 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. No Town contributions were made to the 457(b) plan for the year ended June 30, 2025.

All amounts of compensation deferred under this plan and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The plan administrator, John Hancock, is the trustee of the investments.

NOTE 11- PURCHASE AGREEMENT

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, 2025 approximated \$85,411.

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Notes to the Financial Statements
June 30, 2025

NOTE 12- SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the Statement of Net Position date through the date that the financial statements are available to be issued. As of January 29, 2026, the date the financial statements were available to be issued, the Town performed an evaluation and revealed no other material events or transactions which would require an adjustment or disclosure in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BURGESS AND COMMISSIONERS OF MIDDLETOWN , MARYLAND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual - General Fund
For the Year Ended June 30, 2025

	<u>Original Budget</u>	<u>Final Appropriated Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Local property taxes				
Real estate, net of discounts	\$ 1,633,096	\$ 1,633,096	\$ 1,635,390	\$ 2,294
Tangible personal property	58,087	58,087	51,537	(6,550)
Total Revenues from Local Taxes	<u>1,704,413</u>	<u>1,704,413</u>	<u>1,686,927</u>	<u>(17,486)</u>
Local income taxes	<u>1,324,989</u>	<u>1,324,989</u>	<u>1,486,575</u>	<u>161,586</u>
Other local taxes	<u>22,559</u>	<u>22,559</u>	<u>41,395</u>	<u>18,836</u>
Intergovernmental revenues				
Tax equity program	789,316	789,316	789,316	-
Highway user revenues	354,382	343,409	407,559	64,150
Grants	-	-	264,534	264,534
State police grant	7,422	7,422	5,262	(2,160)
Bank shares grant	1,490	1,490	1,491	1
Total Intergovernmental revenues	<u>1,152,610</u>	<u>1,141,637</u>	<u>1,468,162</u>	<u>326,525</u>
Service charges				
Penalty & Finance Charges	13,230	13,230	12,594	(636)
Improvement fees	-	-	12,000	12,000
Total Revenues from service charges	<u>-</u>	<u>-</u>	<u>24,594</u>	<u>11,364</u>
Licenses & permits				
Planning & zoning	30,731	30,731	81,542	50,811
Franchise (cable) taxes	49,971	49,971	42,073	(7,898)
Park pavilion fees	2,718	2,718	2,585	(133)
Business & traders licenses	2,999	2,999	11,197	8,198
Total Revenues from Licenses & Permits	<u>86,419</u>	<u>86,419</u>	<u>137,397</u>	<u>50,978</u>
Miscellaneous				
Rental income	5,884	5,884	21,102	15,218
Interest income	1,000	1,000	12,345	11,345
Miscellaneous income	7,229	7,229	7,522	293
Total revenues from miscellaneous	<u>14,113</u>	<u>14,113</u>	<u>40,969</u>	<u>26,856</u>
Total Revenues	<u>\$ 4,305,103</u>	<u>\$ 4,294,130</u>	<u>\$ 4,886,019</u>	<u>\$ 578,659</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual - General Fund
For the Year Ended June 30, 2025

	<u>Original Budget</u>	<u>Final Appropriated Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures				
General government				
Legislative				
Salaries and benefits	24,600	24,600	24,600	-
Other operating costs	35,486	35,486	29,629	5,857
Total legislative	<u>60,086</u>	<u>60,086</u>	<u>54,229</u>	<u>5,857</u>
Executive				
Salaries and benefits	12,000	12,000	12,000	-
Total executive	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Professional services				
Other operating costs	59,500	59,500	43,525	15,975
Total professional fees	<u>59,500</u>	<u>59,500</u>	<u>43,525</u>	<u>15,975</u>
Planning & zoning				
Salaries and benefits	194,933	194,933	184,935	9,998
Other operating costs	24,400	24,400	70,134	(45,734)
Total planning & zoning	<u>219,333</u>	<u>219,333</u>	<u>255,069</u>	<u>(35,736)</u>
General services				
Salaries and benefits	448,424	448,424	336,627	111,797
Other operating costs	173,834	173,834	670	173,164
Capital outlay	133,500	133,500	-	133,500
Total general services	<u>755,758</u>	<u>755,758</u>	<u>337,297</u>	<u>418,461</u>
Municipal Operations				
Salaries and benefits	491,775	770,403	826,744	(56,341)
Other operating costs	101,987	101,987	279,189	(177,202)
Capital outlay	420,500	420,500	23,298	397,202
Total municipal operations	<u>1,014,262</u>	<u>1,292,890</u>	<u>1,129,231</u>	<u>163,659</u>
Total General Government	<u>\$ 2,120,939</u>	<u>\$ 2,399,567</u>	<u>\$ 1,831,351</u>	<u>\$ 568,216</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual - General Fund
For the Year Ended June 30, 2025

	Original Budget	Final Appropriated Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (Continued)				
Public safety				
Salaries and benefits	29,073	29,073	23,548	5,525
Other operating costs	412,762	412,762	381,322	31,440
Fire and rescue donations	20,000	20,000	20,000	-
Total Public Safety	\$ 461,835	\$ 461,835	\$ 424,870	\$ 36,965
Public Works				
Salaries and benefits	80,755	80,755	104,983	(24,228)
Other operating costs	939,883	903,829	924,070	(20,241)
Capital outlay	169,196	169,196	714,780	(545,584)
Total Public Works	\$ 1,189,834	\$ 1,153,780	\$ 1,743,833	\$ (590,053)
Parks, recreation & culture				
Salaries and benefits	63,635	63,635	73,708	(10,073)
Other operating costs	109,317	151,598	152,340	(742)
Capital outlay	1,239,971	1,239,971	805,583	434,388
Total parks, recreation & culture	\$ 1,412,923	\$ 1,455,204	\$ 1,031,631	\$ 423,573
Main Street				
Salaries and benefits	105,943	105,943	110,698	(4,755)
Other operating costs	8,000	8,000	9,098	(1,098)
Total Main Street	\$ 113,943	\$ 113,943	\$ 119,796	\$ (5,853)
Miscellaneous				
Salaries and benefits	80,613	80,613	124,602	(43,989)
Other operating costs	113,906	113,906	214,172	(100,266)
Total miscellaneous	\$ 194,519	\$ 194,519	\$ 338,774	\$ (144,255)
Debt Service				
Principal payments	136,500	136,500	179,973	(43,473)
Interest payments	59,703	59,703	75,412	(15,709)
Total debt service	\$ 196,203	\$ 196,203	\$ 255,385	\$ (59,182)
Total Expenditures	\$ 5,690,196	\$ 5,975,051	\$ 5,745,640	\$ 229,411
Other Financing Sources:				
Proceeds from new debt	1,051,721	1,051,721	3,103,683	(2,051,962)
Budgeted Use of Fund Balance	787,270	787,270	-	787,270
	\$ 1,838,991	\$ 1,838,991	\$ 3,103,683	\$ (1,264,692)
Excess of Revenues over Expenditures	\$ 453,898	\$ 158,070	\$ 2,244,062	\$ (915,444)

BURGESS AND COMMISSIONERS OF MIDDLETOWN, MARYLAND
Required Supplementary Information
Schedule of the Town's Contributions -
Maryland State Retirement and Pension Systems

As of June 30:	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Town's proportion of the net pension liability*	0.0053%	0.0042%	0.0041%	0.0039%	0.0034%	0.0034%	0.0031%	0.0030%	0.0027%	0.0028%
Town's proportionate share of the net pension liability*	\$ 1,390,419	\$ 966,817	\$ 818,769	\$ 588,230	\$ 774,710	\$ 704,509	\$ 643,194	\$ 639,824	\$ 637,015	\$ 586,272
Town's covered-employee payroll	\$ 1,549,838	\$ 1,419,749	\$ 1,335,060	\$ 1,053,738	\$ 976,446	\$ 888,658	\$ 888,986	\$ 821,164	\$ 853,025	\$ 708,846
Town's proportionate share of the net pension liability as a percentage of covered-employee payroll	89.71%	68.10%	61.33%	55.82%	79.34%	79.28%	72.35%	77.92%	74.68%	82.71%
Plan fiduciary net position as a percentage of the total pension liability	72.08%	73.81%	76.27%	81.84%	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%

* - 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

BURGESS AND COMMISSIONERS OF MIDDLETOWN , MARYLAND
Required Supplementary Information
Schedule of the Town's Contributions -
Maryland State Retirement and Pension Systems

Year ended <u>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 % of Covered Employee Payroll</u>
2025	\$ 158,040	\$ 158,040	\$ -	\$ 1,549,838	10.20%
2024	138,400	138,400	-	1,419,749	9.75%
2023	102,386	102,386	-	1,335,060	7.67%
2022	93,393	93,393	-	1,053,738	8.86%
2021	86,398	86,398	-	976,446	8.85%
2020	73,492	73,492	-	888,658	8.27%
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%



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

Burgess and Commissioners of Middletown, Maryland

We have audited, in accordance with the 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, Maryland, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Burgess and Commissioners of Middletown, Maryland's basic financial statements, and have issued our report thereon dated January 29, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Burgess and Commissioners of Middletown, Maryland'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 Burgess and Commissioners of Middletown, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the Burgess and Commissioners of Middletown, Maryland's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Burgess and Commissioners of Middletown, Maryland
Independent Auditors' Report
For the Year Ended June 30, 2025**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burgess and Commissioners of Middletown, Maryland'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

DeLeon & Stang

**DeLeon and Stang, CPAs and Advisors
Frederick, Maryland
January 29, 2026**