

# **BURGESS AND COMMISSIONERS OF MIDDLETOWN**

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018

BURGESS AND COMMISSIONERS OF MIDDLETOWN

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## **Independent Auditors' Report**

### **The Burgess and Commissioners of Middletown**

Middletown, Maryland

#### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **Burgess and Commissioners of Middletown ("the Town")** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the included supplementary information, such as management's discussion and analysis, the schedule of the Town's proportionate share of the net pension liability, the schedule of the Town's contributions, and budgetary comparison information on pages 3-8 and 35-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Albright Crumbacker Moul & Itell, LLC*

Hagerstown, Maryland  
October 22, 2018

**The Burgess and Commissioners of Middletown  
Management's Discussion and Analysis  
June 30, 2018**

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, 2018.

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 \$17,089,523 (net position) as of June 30, 2018.
- Total net position is comprised of the following:
  - (1) Invested in capital assets of \$16,434,054 include property and equipment net of accumulated depreciation (\$20,587,621) and net of outstanding debt (\$7,557,271) including the line of credit and capital lease related to the purchase or construction of capital assets and net of the related outstanding loan receivable.
  - (2) Unrestricted net position of \$655,469 represents the portion of assets available to maintain the Town's continuing obligations to its citizens and creditors.
- The Town's governmental funds reported total ending unrestricted fund balance of \$1,055,361 this fiscal year. This compares to the prior year ending fund balance of \$1,447,365 reflecting a decrease of \$392,004.
- The Town's business-type activity (Water & Sewer) reported total ending unrestricted net position of (\$121,399) compared to (\$32,515) reported for the prior fiscal year, a decrease of \$88,884.

**Overview of the Financial Statements**

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

*Government-wide Financial Statements*

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

The *Statement of Net Position* presents financial information with respect to the Town's assets and liabilities, with the difference reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating.

The *Statement of Activities* reports how the Town's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or related cash flows ("accrual method of accounting"). Thus, current year revenues and expenses are included regardless of when cash is received or paid. The design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers. Revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinctively report governmental activities of the Town that are principally supported by taxes and intergovernmental revenues, such as grants, and business-type activities are

intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, and public services. Business-type activities include water utilities, solid waste management, building permits, and park reservations. Fiduciary activities such as employee pension plans are not included in the government-wide statements since these assets are not available to fund Town programs. However, the Town's portion of pension expense is recognized in the Town's financial statements.

## **Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. In contrast to the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. All of the Town's funds are divided into two categories: governmental funds and proprietary funds.

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

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

- *Proprietary Funds* – Proprietary funds are reported in the fund financial statements and generally report services for which the Town charges customers or other units in the Town. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The Town's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

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

## **Notes to the financial statements**

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

## **Financial Analysis of the Town as a Whole**

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

The Town's net position (i.e. assets in excess of liabilities) at fiscal year-end are \$17,089,523. This is a \$937,237 increase over last year's net assets of \$16,152,286. The following table provides a summary of the Town's net assets at June 30, 2018 and 2017:

**Table 1**  
**Town of Middletown**  
**Fiscal Years Ended June 30,**

	Governmental		Business-Type		Totals		Change
	2018	2017	2018	2017	2018	2017	
<b>Assets:</b>							
Current Assets	\$ 1,534,322	\$ 1,882,845	\$ 4,132,877	\$ 5,502,203	\$ 5,667,199	\$ 7,385,048	\$ (1,717,849)
Capital Assets	10,523,823	9,954,418	10,063,798	8,928,259	20,587,621	18,882,677	1,704,944
Other Assets	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>12,058,145</b>	<b>11,837,263</b>	<b>14,196,675</b>	<b>14,430,462</b>	<b>26,254,820</b>	<b>26,267,725</b>	<b>(12,905)</b>
<b>Deferred Outflows of Resources</b>	<b>94,743</b>	<b>111,942</b>	<b>43,147</b>	<b>51,490</b>	<b>137,890</b>	<b>163,432</b>	<b>(25,542)</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>12,152,888</b>	<b>11,949,205</b>	<b>14,239,822</b>	<b>14,481,952</b>	<b>26,392,710</b>	<b>26,431,157</b>	<b>(38,447)</b>
<b>Liabilities:</b>							
Current and Other Liabilities	517,808	553,384	823,835	1,093,425	1,341,643	1,646,809	(305,166)
Net Pension Liability	430,792	428,914	209,032	208,101	639,824	637,015	2,809
Long-Term Liabilities	2,477,380	2,593,029	4,778,976	5,370,697	7,256,356	7,963,726	(707,370)
<b>Total Liabilities</b>	<b>3,425,980</b>	<b>3,575,327</b>	<b>5,811,843</b>	<b>6,672,223</b>	<b>9,237,823</b>	<b>10,247,550</b>	<b>(1,009,727)</b>
<b>Deferred Inflows of Resources</b>	<b>46,420</b>	<b>23,499</b>	<b>18,944</b>	<b>7,822</b>	<b>65,364</b>	<b>31,321</b>	<b>34,043</b>
<b>Total Liabilities and Deferred Outflows of Resources</b>	<b>3,472,400</b>	<b>3,598,826</b>	<b>5,830,787</b>	<b>6,680,045</b>	<b>9,303,187</b>	<b>10,278,871</b>	<b>(975,684)</b>
<b>Net Position:</b>							
Invested in capital assets, net of related debt	7,903,620	7,257,988	8,530,434	7,834,422	16,434,054	15,092,410	1,341,644
Unrestricted	776,868	1,092,391	(121,399)	(32,515)	655,469	1,059,876	(404,407)
<b>Total Net Position</b>	<b>\$ 8,680,488</b>	<b>\$ 8,350,379</b>	<b>\$ 8,409,035</b>	<b>\$ 7,801,907</b>	<b>\$ 17,089,523</b>	<b>\$ 16,152,286</b>	<b>\$ 937,237</b>

Governmental Activities include assets such as the Town Hall, Vehicles, and Parks. Business-type Activities include Water and Sewer assets. The largest portion of the Town's net position reflects its investments in capital assets (i.e. land, buildings, equipment, infrastructure), less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Town uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources.

### Financial Analysis of the Town's Fund

*Governmental Funds* - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year. The General Fund is the chief operating fund of the Town. For the fiscal year ended June 30, 2018, the Town's unassigned governmental fund balance decreased by \$441,019 to a balance of \$435,541. 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, 2018 reported a balance of (\$121,399).

### Governmental Activities

Table 2 shows the Town's revenue and expenses of the governmental and business-type activities for the years ended June 30, 2018 and 2017. As shown, governmental activities increased the Town's net position by \$330,109 representing 35% 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 \$59,023, or 7%. The Town's revenues from governmental activities totaled \$3,565,080, for the fiscal year ended June 30, 2018. Revenue from taxes represented 89% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,339,624, state income and highway user taxes of \$1,195,401 and county taxes of \$636,620.

The Town's expenditures from governmental activities totaled \$3,234,971 for the fiscal year ended June 30, 2018. Expenditures of general government comprised the largest portion of total expenditures from governmental activities and totaled \$1,320,093 or 41% and public services the second largest expense at \$715,174 or 22%.

## Business-type Activities

Referring to Table 2, the Town's business-type activities include the water and sewer fund. The net position of these activities increased by \$607,128 for the fiscal year ended June 30, 2018. The major source of revenue is utility service charges for water and sewer which was \$1,222,584 representing 55% of total revenues.

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

	Governmental Activities		Business-Type Activities		Totals		Change
	2018	2017	2018	2017	2018	2017	
<b>Revenues</b>							
General Revenues							
Property Taxes	\$ 1,339,624	\$ 1,268,141	\$ -	\$ -	\$ 1,339,624	\$ 1,268,141	\$ 71,483
Income Taxes	1,034,356	880,538	-	-	1,034,356	880,538	153,818
Highway Taxes	161,045	154,057	-	-	161,045	154,057	6,988
County Taxes	636,620	598,234	-	-	636,620	598,234	38,386
Other Income	37,345	56,326	826,190	936,977	863,535	993,303	(129,768)
Interest Income	15,340	17,050	-	-	15,340	17,050	(1,710)
Program Revenues							
Public Safety	993	-	-	-	993	-	993
Parks and Recreation	117,928	40,315	-	-	117,928	40,315	77,613
Public Services	26,197	26,320	-	-	26,197	26,320	(123)
Water and Sewer	-	-	1,222,584	1,212,150	1,222,584	1,212,150	10,434
Other Income	195,632	25,206	190,403	183,496	386,035	208,702	177,333
<b>Total Revenues</b>	<b>3,565,080</b>	<b>3,066,187</b>	<b>2,239,177</b>	<b>2,332,623</b>	<b>5,804,257</b>	<b>5,398,810</b>	<b>405,447</b>
<b>Expenditures</b>							
General Government	1,320,093	1,227,400	-	-	1,320,093	1,227,400	92,693
Public Safety	427,890	404,828	-	-	427,890	404,828	23,062
Parks and Recreation	110,371	145,774	-	-	110,371	145,774	(35,403)
Public Services	715,174	753,619	-	-	715,174	753,619	(38,445)
Depreciation and Amortization	563,905	335,009	416,727	422,411	980,632	757,420	223,212
Interest Expense	97,538	140,534	38,354	32,459	135,892	172,993	(37,101)
Water/Sewer Utilities	-	-	1,176,968	1,063,206	1,176,968	1,063,206	113,762
<b>Total Expenditures</b>	<b>3,234,971</b>	<b>3,007,164</b>	<b>1,632,049</b>	<b>1,518,076</b>	<b>4,867,020</b>	<b>4,525,240</b>	<b>341,780</b>
Change in Net Position	330,109	59,023	607,128	814,547	937,237	873,570	63,667
Beginning Net Position	8,350,379	8,291,356	7,801,907	6,987,360	16,152,286	15,278,716	873,570
<b>Total Net Position</b>	<b>\$ 8,680,488</b>	<b>\$ 8,350,379</b>	<b>\$ 8,409,035</b>	<b>\$ 7,801,907</b>	<b>\$ 17,089,523</b>	<b>\$ 16,152,286</b>	<b>\$ 937,237</b>

## 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, 2018 was \$20,587,621, net of depreciation. This investment includes land, buildings, improvements, water and sewer distribution systems,

roads and sidewalks, machinery and equipment and construction in progress. More detailed information regarding the Town's capital assets can be found in Notes 1 and 5 to the financial statements.

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

- Major road construction and patching on Locust Court, Young Branch Drive and Lombardy Court totaling \$584,153
- Remsberg Park Walking Trail connecting the park to existing trail system including a new bridge. The work totaled \$100,332 in fiscal year 2018
- Memorial Park Tot Lot and Playground Replacements \$56,500
- Pedestrian Safety Improvements of \$39,459
- Heritage Museum and Heritage Park \$17,883

### 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, 2018 and 2017 was \$20,587,621 and \$18,882,677, respectively. Combined capital assets, net of accumulated depreciation for both the governmental and business type activities increased by 9% from the prior year.

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

	Governmental Activities		Business-Type Activities		Totals		Amount Change
	2018	2017	2018	2017	2018	2017	
<b>Non-Depreciable Assets:</b>							
Land	\$ 3,850,860	\$ 3,850,860	\$ 448,615	\$ 441,374	\$ 4,299,475	\$ 4,292,234	\$ 7,241
Construction In Progress	68,588	122,493	1,866,929	676,083	1,935,517	798,576	1,136,941
<b>Depreciable Assets:</b>							
Buildings	695,030	730,062	7,110	7,900	702,140	737,962	(35,822)
Machinery & Equipment	421,316	350,893	3,460	4,689	424,776	355,582	69,194
Parks & Recreation	836,387	684,656	-	-	836,387	684,656	151,731
Vehicles	149,238	160,494	38,424	49,643	187,662	210,137	(22,475)
Streets	4,502,404	4,054,960	-	-	4,502,404	4,054,960	447,444
Sewer Distribution	-	-	2,974,292	3,145,169	2,974,292	3,145,169	(170,877)
Water Distribution	-	-	4,484,263	4,395,069	4,484,263	4,395,069	89,194
Water Meters	-	-	231,625	198,817	231,625	198,817	32,808
Springs	-	-	9,080	9,515	9,080	9,515	(435)
<b>Total</b>	<b>\$ 10,523,823</b>	<b>\$ 9,954,418</b>	<b>\$ 10,063,798</b>	<b>\$ 8,928,259</b>	<b>\$ 20,587,621</b>	<b>\$ 18,882,677</b>	<b>\$ 1,704,944</b>

### Long-term Debt

As disclosed in the following table, total outstanding debt, excluding the line of credit, was \$7,557,271 representing repayments of \$597,093 during the fiscal year ended June 30, 2018. The Town acquired a \$7 million bond in FY2016 to complete 3 major government-wide projects including improvements to West Green Street, improvements to the Main Street waterline, and the improvements to the Town's Reservoir. Refer to Notes 4, 9, and 10 to the Financial Statements for more detailed information.

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

	Governmental		Business-Type		Totals		Change
	2018	2017	2018	2017	2018	2017	
Mortgage Payable - Park and Recreation Land	\$ 200,609	\$ 316,252	\$ -	\$ -	\$ 200,609	\$ 316,252	\$ (115,643)
Infrastructure Bonds - Street Expansion	123,500	136,500	-	-	123,500	136,500	(13,000)
Infrastructure Bonds - Street Improvements	2,232,500	2,330,000	-	-	2,232,500	2,330,000	(97,500)
Capital Lease - Equipment	151,920	-	-	-	151,920	-	151,920
Infrastructure Bonds - Water Distribution	-	-	148,500	175,500	148,500	175,500	(27,000)
Infrastructure Bonds - Water Distribution	-	-	4,238,500	4,333,000	4,238,500	4,333,000	(94,500)
Water Quality Loan - WWTP	-	-	445,880	661,173	445,880	661,173	(215,293)
Net unamortized bond premiums and discounts	34,416	36,420	(18,554)	(19,237)	15,862	17,183	(1,321)
<b>Total</b>	<b>\$ 2,742,945</b>	<b>\$ 2,819,172</b>	<b>\$ 4,814,326</b>	<b>\$ 5,150,436</b>	<b>\$ 7,557,271</b>	<b>\$ 7,969,608</b>	<b>\$ (412,337)</b>

## **Economic Environment**

The Town's economic environment is dependent on the Town's ability to balance residential and commercial growth within the city limits while seeking to grow tax revenue to maintain its current level of service to the Town's residents. This past year the Town has seen a substantial increase in the development of both residential construction and commercial development. The Middletown Glen subdivision has built their model home and is selling homes. The Cross Stone Commons shopping center has started construction of their second pad site with another five businesses. In addition, in April of 2018, the Town Board annexed an additional 93.93 acres into the corporate boundaries for the development of an Active Adult subdivision with up to 148 units. This will allow the Town a significant income stream for both the General Fund and Water & Sewer Enterprise Fund through 2027.

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

## **Contacting the Town's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Town's Financial Officer at 31 West Main Street, Middletown, Maryland 21769.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF NET POSITION  
June 30, 2018

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 716,566	\$ 729,139	\$ 1,445,705
Receivables:			
Customers accounts	-	390,417	390,417
Other	133,282	11,411	144,693
Loan	122,742	3,413,276	3,536,018
Intercompany balances	446,779	(446,779)	-
Due from other governments	33,943	-	33,943
Prepaid expenses	81,010	35,413	116,423
Capital assets:			
Land	3,850,860	448,615	4,299,475
Other capital assets, net of accumulated depreciation	6,604,375	7,748,254	14,352,629
Construction in progress	68,588	1,866,929	1,935,517
<b>TOTAL ASSETS</b>	<b>12,058,145</b>	<b>14,196,675</b>	<b>26,254,820</b>
DEFERRED OUTFLOW OF RESOURCES	94,743	43,147	137,890
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>12,152,888</b>	<b>14,239,822</b>	<b>26,392,710</b>
<u>LIABILITIES</u>			
Line of credit	-	132,314	132,314
Accounts payable	155,565	281,257	436,822
Accrued operating expenses	50,979	61,913	112,892
Other accrued liabilities	45,699	4,000	49,699
Current maturities of capital lease	32,904	-	32,904
Current maturities of long-term debt	232,661	344,351	577,012
Net pension liability	430,792	209,032	639,824
Accrued inflow and infiltration liability	-	153,551	153,551
Accrued sludge removal liability	-	155,450	155,450
Capital lease, long-term	119,016	-	119,016
Long-term debt	2,358,364	4,469,975	6,828,339
<b>TOTAL LIABILITIES</b>	<b>3,425,980</b>	<b>5,811,843</b>	<b>9,237,823</b>
DEFERRED INFLOW OF RESOURCES	46,420	18,944	65,364
<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b>3,472,400</b>	<b>5,830,787</b>	<b>9,303,187</b>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	7,903,620	8,530,434	16,434,054
Unrestricted	776,868	(121,399)	655,469
<b>TOTAL NET POSITION</b>	<b>\$ 8,680,488</b>	<b>\$ 8,409,035</b>	<b>\$ 17,089,523</b>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Primary government:							
Governmental activities:							
General government	\$ 1,320,093	\$ 19,632	\$ 176,000	\$ -	\$ (1,124,461)	\$ -	\$ (1,124,461)
Public safety	427,890	-	-	993	(426,897)	-	(426,897)
Parks and recreation	110,371	3,958	-	113,970	7,557	-	7,557
Public services	715,174	-	26,197	-	(688,977)	-	(688,977)
Depreciation and amortization	563,905	-	-	-	(563,905)	-	(563,905)
Interest	97,538	-	-	-	(97,538)	-	(97,538)
Total governmental activities	<u>3,234,971</u>	<u>23,590</u>	<u>202,197</u>	<u>114,963</u>	<u>(2,894,221)</u>	<u>-</u>	<u>(2,894,221)</u>
Business-type activities:							
Water and sewer utilities	<u>1,632,049</u>	<u>1,412,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219,062)</u>	<u>(219,062)</u>
Total business-type activities	<u>1,632,049</u>	<u>1,412,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219,062)</u>	<u>(219,062)</u>
Total primary government	<u>\$ 4,867,020</u>	<u>\$ 1,436,577</u>	<u>\$ 202,197</u>	<u>\$ 114,963</u>	<u>(2,894,221)</u>	<u>(219,062)</u>	<u>(3,113,283)</u>
General revenues:							
Taxes							
Property					1,339,624	-	1,339,624
Income					1,034,356	-	1,034,356
Highway					161,045	-	161,045
County shared					610,423	-	610,423
Admissions and Amusement					26,197	-	26,197
Other					50,664	-	50,664
Other income					2,480	826,190	828,670
Loss on capital asset disposal					(15,799)	-	(15,799)
Interest income					15,340	-	15,340
Total general revenues					<u>3,224,330</u>	<u>826,190</u>	<u>4,050,520</u>
Change in net position					330,109	607,128	937,237
Net position - beginning of year					<u>8,350,379</u>	<u>7,801,907</u>	<u>16,152,286</u>
Net position - end of year					<u>\$ 8,680,488</u>	<u>\$ 8,409,035</u>	<u>\$ 17,089,523</u>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2018

ASSETS

Cash and cash equivalents	\$ 716,566
Receivables	133,282
Due from proprietary fund	446,779
Due from other governments	33,943
Prepaid expenses	81,010

TOTAL ASSETS	\$ 1,411,580
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LIABILITIES

Accounts payable	\$ 155,565
Accrued operating expenses	31,027
Other accrued liabilities	45,699

TOTAL LIABILITIES	232,291
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DEFERRED INFLOWS OF RESOURCES

Unavailable revenue - property taxes	9,958
Unavailable revenue - intergovernmental	113,970

TOTAL DEFERRED INFLOWS OF RESOURCES	123,928
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FUND BALANCE

Non-spendable:	
Prepaid expenses	81,010
Committed to:	
Public safety	393,895
Highways and streets	36,325
Assigned to:	
Community events	53,290
Highways and streets	55,300
Unassigned	435,541

TOTAL FUND BALANCE	1,055,361
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TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	\$ 1,411,580
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BURGESS AND COMMISSIONERS OF MIDDLETOWN

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

June 30, 2018

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Fund Balance - total governmental funds	\$ 1,055,361
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet	
Governmental capital assets, net of accumulated depreciation	10,523,823
Accrued interest payable does not require the use of current resources and therefore is not reported as a liability in the governmental fund	(19,952)
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund	(2,620,203)
Unamortized deferred outflows of resources - pensions	94,743
Unamortized deferred inflows of resources - pensions	(46,420)
Pension liability	(430,792)
Certain amounts of grant revenues and property taxes in the statement of activities do not provide current financial resources and therefore is not recognized as revenue in the governmental fund	
Deferred inflows of resources - unavailable revenue	<u>123,928</u>
Net Position of Governmental Activities	<u><u>\$ 8,680,488</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

REVENUES

Taxes:		
Local	\$	1,335,693
State shared		1,221,598
County shared		610,423
Other		50,664
Operating grants		202,197
Capital grants and contributions		993
Licenses and permits		19,632
Service charges		3,958
Interest income		15,340
Other revenues		2,480
		<u>3,462,978</u>
Total Revenues		<u>3,462,978</u>

EXPENDITURES

General government		1,486,384
Public safety		427,890
Parks and recreation		271,508
Public services		1,494,856
Debt service:		
Principal		260,984
Interest		98,116
		<u>4,039,738</u>
Total Expenditures		<u>4,039,738</u>

OTHER FINANCING SOURCES

Debt financing proceeds		<u>184,756</u>
Net change in fund balance		(392,004)
Fund balance, beginning of year		<u>1,447,365</u>
Fund balance, end of year	\$	<u><u>1,055,361</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 GOVERNMENTAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

Net change in Fund Balance - total governmental funds	\$ (392,004)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their estimated useful lives. The amount by which capital outlays exceed current year depreciation expense is a required adjustment.	585,203
The effect of disposals of capital assets is to decrease net assets.	(15,799)
The issuance of long-term debt (e.g. bonds, leases, and notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has an effect on net assets. This amount represents current year principal payments on long-term debt obligations and loan proceeds from newly issued debt.	76,228
Net adjustments to deferred inflows and outflows of resources relative to implementation of GASB 68 - pensions	(41,997)
Certain amounts of grant revenues and property taxes in the statement of activities do not provide current financial resources and are therefore not recognized as revenue in the governmental fund. This is the amount by which deferred inflows of resources increased.	117,900
Accrued interest payable does not require the use of current resources and therefore is not reported as an expense in the governmental fund	<u>578</u>
Change in Net Position of Governmental Funds	<u><u>\$ 330,109</u></u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF NET POSITION - PROPRIETARY FUND (WATER AND SEWER)  
June 30, 2018

ASSETS

Cash and cash equivalents	\$ 729,139
Receivables:	
Customers accounts	390,417
Other	11,411
Loan	3,413,276
Prepaid expenses	35,413
Capital assets:	
Land	448,615
Other capital assets, net of accumulated depreciation	7,748,254
Construction in progress	1,866,929
	<hr/>
TOTAL ASSETS	14,643,454
DEFERRED OUTFLOW OF RESOURCES	43,147
	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	14,686,601
	<hr/>

LIABILITIES

Line of credit	132,314
Accounts payable	281,257
Accrued expenses	61,913
Other accrued liabilities	4,000
Current maturities of long-term debt	344,351
Due to general fund	446,779
Net pension liability	209,032
Accrued inflow and infiltration liability	153,551
Accrued sludge removal liability	155,450
Long-term debt	4,469,975
	<hr/>
TOTAL LIABILITIES	6,258,622
DEFERRED INFLOW OF RESOURCES	18,944
	<hr/>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	6,277,566
	<hr/>

NET POSITION

Invested in capital assets, net of related debt	8,530,434
Unrestricted	(121,399)
	<hr/>
TOTAL NET POSITION	\$ 8,409,035
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BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
 FUND NET POSITION - PROPRIETARY FUND (WATER AND SEWER)  
 FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES

Charges for services:

Water fees	\$ 607,180
Sewer fees	602,269
Late payment fees	13,135
Water tower cell phone antenna leases	190,403

TOTAL OPERATING REVENUES	<u>1,412,987</u>
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OPERATING EXPENSES

Administrative	226,809
Depreciation and amortization	416,727
Water expenses	341,272
Sewer expenses	608,887

TOTAL OPERATING EXPENSES	<u>1,593,695</u>
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OPERATING INCOME (LOSS)	<u>(180,708)</u>
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NON-OPERATING REVENUES (EXPENSES)

Capital improvement fees	159,088
Connection fees	486,000
Debt service fees	148,100
Interest expense	(38,354)
Other non-operating revenues	33,002

TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>787,836</u>
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CHANGE IN NET POSITION	607,128
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TOTAL NET POSITION, BEGINNING OF YEAR	<u>7,801,907</u>
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TOTAL NET POSITION, END OF YEAR	<u>\$ 8,409,035</u>
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BURGESS AND COMMISSIONERS OF MIDDLETOWN  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)  
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,417,444
Cash paid to suppliers, employees, and professional contractors	<u>(1,466,694)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(49,250)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,552,266)
Principal payments on notes payable	677,528
Principal payments on line of credit	(238,000)
Interest paid on notes payable	(41,120)
Capital improvement fees	156,735
Debt service fees	146,293
Connection fees	486,000
Noncapital financing from the general fund	(116,750)
Other	<u>16,154</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(465,426)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>15,560</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15,560</u>
DECREASE IN CASH	(499,116)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,228,255</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 729,139</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF CASH FLOWS - PROPRIETARY FUND (WATER AND SEWER)  
FOR THE YEAR ENDED JUNE 30, 2018

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RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (180,708)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization	416,727
(Increase) decrease in:	
Customer accounts receivable	4,104
Other receivables	(11,411)
Other assets	(13,922)
Deferred outflow of resources	8,343
Increase (decrease) in:	
Accounts payable	(35,829)
Accrued operating expenses	(565)
Accrued sludge removal liability	17,250
Accrued inflow and infiltration liability	(265,292)
Net pension liability	931
Deferred inflow of resources	11,122
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (49,250)</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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**1. Significant Accounting Policies**

*Organization*

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

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

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

*Fund Financial Statements*

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

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

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

## BURGESS AND COMMISSIONERS OF MIDDLETOWN

### NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

#### *Fund Accounting*

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The Town has the following funds:

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

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

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

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

## BURGESS AND COMMISSIONERS OF MIDDLETOWN

### NOTES TO THE FINANCIAL STATEMENTS

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#### *Cash Equivalents*

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

#### *Investments*

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

#### *Receivables*

Consumer accounts receivable are carried at original invoice amounts. All delinquent accounts receivable, including property taxes, are considered to be fully collectible, and therefore, no allowance for doubtful accounts has been recorded. An account receivable is considered to be past due if any portion of the receivable is outstanding for more than 30 days.

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

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

#### *Prepaid Expenditures*

Payments made to vendors for services that will benefit the Town in periods beyond the end of the fiscal year are reported as prepaid expenditures using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and reflecting the expenditure in the year in which services are consumed.

#### *Capital Assets*

Capital assets, including land, buildings, improvements, equipment, and infrastructure (roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of more than \$1,000 for land, buildings, improvements, and equipment, and \$15,000 for infrastructure and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

GASB Statement No. 34 requires the Town to report all governmental activities' infrastructure assets acquired after June 30, 2003, and encourages, but does not require, the Town to retroactively report infrastructure assets acquired after June 30, 1980. The Town has elected not to retroactively report infrastructure assets and the accompanying basic financial statements only include infrastructure assets acquired after June 30, 2003.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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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.

Interest incurred during the construction phase of capital assets of the business-type activities fund is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. See Note 9 for further information on interest capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

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

*Inter-fund Transactions*

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

*Retirement Plan*

Eligible Burgess and Commissioners of Middletown employees may participate in the State Retirement & Pension System of Maryland. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town’s retirement plans and additions to/deductions from the retirement plans’ fiduciary net position have been determined on the same basis as they are reported by the retirement plans. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefits and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Compensated Absences*

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

*Equity Classifications*

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

Invested in capital assets – consists of capital assets net of accumulated depreciation and related debt.

Restricted net position – consists of funds whose use by the Town has been limited by creditors to a specific time period or purpose.

Unrestricted net position – all other net position that do not meet the definition of “invested in capital assets” or “restricted net position”.

## BURGESS AND COMMISSIONERS OF MIDDLETOWN

### NOTES TO THE FINANCIAL STATEMENTS

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

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

Non-spendable – reflects amounts that are not in spendable form (e.g. inventory, prepaid items, etc.).

Restricted – reflects amounts that are restricted to specific purposes, pursuant to restrictions imposed externally by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – reflects amounts subject to internal constraints self-imposed by formal action of the Burgess and Commissioners of Middletown (i.e. awarded contracts, passed ordinances, etc.).

Assigned – reflects amounts that the Town intends to use for specific purposes (e.g. motions passed by the Burgess and Commissioners).

Unassigned – reflects the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned for specific purposes.

#### *Use of Estimates*

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

#### *Income Tax Status*

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

## **2. Stewardship, Compliance, and Accountability**

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

## **3. Risks and Uncertainties**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a member of the

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2018, the Town paid premiums approximating \$21,000 to the trust. The trust is self-sustaining through member premiums and purchases reinsurance to reduce its exposure to certain large losses. Over the last three years incurred and paid claims have not exceed insurance coverage.

The Town also participates in a similar risk sharing pool for its health insurance coverage. The Town is one of 22 local governmental entities covered by the Maryland Local Government Health Cooperative (Cooperative), a self-insurance alliance between member governments. The Cooperative was established as a health plan for the purpose of providing group health benefits to its members' employees and eligible dependents. Each member's premium is calculated using an actuarial study and claims experience. During fiscal year 2018, the Town paid premiums approximating \$180,000. The plan is self-sustaining through member premiums and reinsurance. Reinsurance covers losses in excess of the per-member cap and the group cap, if needed, after the cross share of member premiums. In years where total claims for the group are lower, premiums may be returned to the members. During fiscal year 2018, the Town did not receive any refund of premiums.

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

**4. Loan Receivable**

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

The following is a summary of changes in the loans receivable related to Infrastructure Series A Bonds for the year ended June 30, 2018:

	Balance July 1, 2017	Issued	Received	Balance June 30, 2018
Governmental Activities				
Loan receivable - Infrastructure				
Series A Bond	\$ 122,742	\$ -	\$ -	\$ 122,742
Business-type Activities				
Loan receivable - Infrastructure				
Series A Bond	4,426,913	-	1,013,637	3,413,276
Total Loan Receivable	<u>\$ 4,549,655</u>	<u>\$ -</u>	<u>\$ 1,013,637</u>	<u>\$ 3,536,018</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

**5. Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	2017	Additions	Reductions	2018
<u>Governmental Activities</u>				
Non-depreciable assets:				
Land	\$ 3,850,860	\$ -	\$ -	\$ 3,850,860
Construction in progress	122,493	12,840	66,745	68,588
Depreciable:				
Buildings and improvements	1,362,306	13,575	-	1,375,881
Machinery and equipment	939,217	194,714	62,287	1,071,644
Parks and recreation	982,864	227,883	-	1,210,747
Vehicles	574,552	19,940	-	594,492
Streets	6,182,155	746,902	-	6,929,057
Total	14,014,447	1,215,854	129,032	15,101,269
Less accumulated depreciation				
Buildings and improvements	632,244	48,607	-	680,851
Machinery and equipment	588,324	108,492	46,488	650,328
Parks and recreation	298,208	76,152	-	374,360
Vehicles	414,058	31,196	-	445,254
Streets	2,127,195	299,458	-	2,426,653
Total	4,060,029	\$ 563,905	\$ 46,488	4,577,446
Net book value	<u>\$ 9,954,418</u>			<u>\$ 10,523,823</u>
<u>Business-type Activities</u>				
Non-depreciable assets:				
Land	\$ 441,374	\$ 7,241	\$ -	\$ 448,615
Construction in progress	676,083	1,246,110	55,264	1,866,929
Depreciable:				
Sewer distribution	7,330,299	7,999	-	7,338,298
Water distribution	7,912,899	298,999	-	8,211,898
Water meters	215,598	47,181	-	262,779
Springs	17,387	-	-	17,387
Equipment	92,497	-	-	92,497
Vehicles	160,530	-	-	160,530
Buildings	33,687	-	-	33,687
Total	16,880,354	1,607,530	55,264	18,432,620
Less accumulated depreciation				
Sewer distribution	4,185,130	178,876	-	4,364,006
Water distribution	3,517,830	209,805	-	3,727,635
Water meters	16,781	14,373	-	31,154
Springs	7,872	435	-	8,307
Equipment	87,808	1,229	-	89,037
Vehicles	110,887	11,219	-	122,106
Buildings	25,787	790	-	26,577
Total	7,952,095	\$ 416,727	\$ -	8,368,822
Net book value	<u>\$ 8,928,259</u>			<u>\$ 10,063,798</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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

<u>Governmental Activities</u>	
General government	\$ 188,295
Parks and recreation	76,152
Streets and alleys	<u>299,458</u>
	<u>\$ 563,905</u>
 <u>Business Type Activities</u>	
Water and sewer utilities	<u>\$ 416,727</u>

The Town has active construction projects as of June 30, 2018. At year end the Town's commitments with contractors for major projects are as follows:

Project	Spent-to-Date	Remaining Commitment
Main Street Waterline	\$ 1,008,776	\$ 1,841,363
Reservoir Tank	\$ -	\$ 156,433

**6. Inter-fund Receivables and Payables**

The composition of inter-fund balances as of June 30, 2018 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and sewer	\$ 446,779

The balance due to the general fund from the water and sewer fund resulted primarily from the time lag between the dates that reimbursable expenditures occur and payments between funds are made. It is not anticipated that this balance will be repaid within the subsequent fiscal year.

**7. Line of Credit**

The Town has a revolving line of credit totaling \$2 million, bearing interest at 2.01% plus LIBOR (4.09% at June 30, 2018). The Town did not borrow any additional funds from the line of credit during the year ended June 30, 2018. The outstanding balance at year end was \$132,314. The entire outstanding principal balance, all accrued and unpaid interest thereon, are due and payable, if not sooner paid, on the 15<sup>th</sup> day of February 2020.

**8. Commitments and Contingencies**

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

The Town leases unimproved land under an operating lease expiring in 2027. In lieu of lease payments, the Town pays the real estate taxes, assessments, and utilities. Total payments approximated \$1,000 for fiscal year 2018.

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, 2018 approximated \$79,000.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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

The Town has an inflow and infiltration program to address rain run-off and ground water that enters the sanitary sewer system. In previous years it was the Town's policy to conduct an engineering study approximately every five to seven years to determine the locations where significant inflow and infiltration had occurred and develop construction contracts to address such areas. The most recent study was performed in fiscal year 2017 in preparation for the servicing which began in fiscal year 2018. Management has estimated that future costs will be approximately \$300,000 to complete this servicing and other identified major maintenance projects through fiscal year 2020. Accordingly, an accrued liability of \$75,000 was recognized for the fiscal year which, combined with the remaining balance of previous years' accruals, represents approximately 50% of the total estimated liability. After these projects are completed, the Town expects to perform maintenance on certain sections of the system annually and expense these costs as incurred.

The following is a summary of changes in these long-term accrued liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Balance Due Within One Year
Business-type Activities					
Sludge removal	\$ 138,200	\$ 17,250	\$ -	\$ 155,450	\$ 34,700
Inflow and infiltration	418,843	75,000	340,292	153,551	89,000
	<u>\$ 557,043</u>	<u>\$ 92,250</u>	<u>\$ 340,292</u>	<u>\$ 309,001</u>	<u>\$ 123,700</u>

**9. Capital Lease**

During fiscal year 2018, the Town entered into a 63 month lease agreement for office equipment valued at \$184,756. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the lease inception date. Leased equipment is depreciated over its estimated useful life which is determined to be substantially the same as the lease period. For the year ended June 30, 2018, depreciation expense included in general government depreciation in the governmental activities fund totaled \$35,192. As of June 30, 2018, the net book value of the leased equipment included in machinery and equipment in the governmental activities fund totaled \$149,564.

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

2019	\$ 39,753
2020	39,753
2021	39,753
2022	39,753
2023	9,936
	<u>168,948</u>
Less: amount representing interest	17,028
	<u>151,920</u>
Less: current maturities	32,904
	<u>\$ 119,016</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

**10. Long-term Debt**

The Town's long-term debt as of June 30, 2018 consisted of the following:

Governmental Activities

\$1,400,000 mortgage payable to a private lender. The original mortgage payable was refinanced in July 2012 when the outstanding balance was \$837,053. Under the terms of the refinanced debt agreement, the mortgage is payable in monthly installments of \$10,296 including principal and interest at the fixed rate of 3%; due in full no later than February, 2020; and collateralized by park and recreation land.	\$ 200,609
\$250,000 Local Government Infrastructure Bonds from Maryland Department of Housing and Community Development payable in semi-annual installments of principal, ranging from \$8,500 in year one to \$17,500 in the final year, plus interest at variable rates ranging from 3.65% to 4.40%; and collateralized by all local government payments, including money, securities, bank deposits, any other investments and receivables.	123,500
\$2,500,000 Local Government Infrastructure Bonds from Maryland Department of Housing and Community Development payable in semi-annual installments of principal, ranging from \$73,000 in year one to \$170,500 in the final year, plus interest at variable rates ranging from 3.25% to 3.6%; and collateralized by all local government payments, including money, securities, bank deposits, any other investments and receivables.	<u>2,232,500</u>
Total Long-term Debt Principal	2,556,609
Unamortized bond premium	<u>34,416</u>
Total Governmental Activities	<u>2,591,025</u>

Business-type Activities

\$347,885 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development. The original bonds were refinanced in 2010 when the outstanding balance was \$347,885. Under the terms of the refinanced debt agreement, the bonds are payable in semi-annual installments ranging from \$23,500 to \$32,000, including principal and interest at the rate of .75% increasing to 3.69% with final payment due in May 2023; and collateralized by all revenues, all money held in investments, and all receivables.	148,500
\$4,500,000 Infrastructure Series A Bonds from the Maryland Department of Housing and Community Development payable in semi-annual installments ranging from \$71,000 in year one to \$240,000 in the final year with final payment due in April 2045, plus interest at variable rates ranging from 3.5% to 3.85%; and collateralized by all revenues, all money held in investments, and all receivables.	4,238,500
\$3,700,000 Maryland Water Quality Bond Series 1999. The loan agreement was amended in January 2005 when the outstanding principal balance was \$2.89 million. Under the terms of the amendment, the loan is payable in annual installments of \$230,830 in February, including principal and interest at the rate of 2.35%, and annual payments in August including interest and a fixed administrative fee of \$10,435 with final payment due in February 2020; and collateralized by the full faith and credit and unlimited taxing power of the Town.	<u>445,880</u>
Total Long-term Debt Principal	4,832,880
Net unamortized bond discount	<u>(18,554)</u>
Total Business-type Activities	<u>4,814,326</u>
Total Long-term Debt	<u>\$ 7,405,351</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

One of the infrastructure bonds in the business-type activities fund is being used to finance a current construction project. Accordingly, the interest on the bond was capitalized. The amount of interest capitalized was calculated by netting actual interest expense of \$155,895 with the actual investment earnings of \$30,617 on the un-spent proceeds.

The following is a summary of activity charged to interest expense for the year ended June 30, 2018:

	Governmental Activities	Business-Type Activities	Total
Interest expense	\$ 99,543	\$ 162,949	\$ 262,492
Amortization of bond discount (premium)	(2,005)	683	(1,322)
Less: interest capitalized	-	(125,278)	(125,278)
Total interest expense	<u>\$ 97,538</u>	<u>\$ 38,354</u>	<u>\$ 135,892</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018	Balance Due Within One Year
<b>Governmental Activities</b>					
Mortgage Payable	\$ 316,252	\$ -	\$ 115,643	\$ 200,609	\$ 119,161
Infrastructure Series A Bond	136,500	-	13,000	123,500	13,500
Infrastructure Series A Bond	2,330,000	-	97,500	2,232,500	100,000
Total Governmental Activities*	<u>2,782,752</u>	<u>-</u>	<u>226,143</u>	<u>2,556,609</u>	<u>232,661</u>
<b>Business-type Activities</b>					
Infrastructure Series A Bond	175,500	-	27,000	148,500	27,500
Infrastructure Series A Bond	4,333,000	-	94,500	4,238,500	96,500
Maryland Water Quality Bond	661,173	-	215,293	445,880	220,351
Total Business-type Activities*	<u>5,169,673</u>	<u>-</u>	<u>336,793</u>	<u>4,832,880</u>	<u>344,351</u>
Total Long-term Debt Principal*	<u>\$ 7,952,425</u>	<u>\$ -</u>	<u>\$ 562,936</u>	<u>\$ 7,389,489</u>	<u>\$ 577,012</u>

\*Does not include net unamortized bond premiums and discounts. For the year ended June 30, 2018, unamortized bond premiums totaled \$34,416 for governmental activities and \$0 for business-type activities; unamortized bond discounts totaled \$0 for governmental activities and \$18,554 for business-type activities.

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

	Governmental Activities		Business-type Activities	
	General Obligation		Revenue Bonds and Loans	
	Principal	Interest	Principal	Interest
2019	\$ 232,661	\$ 85,954	\$ 344,351	\$ 167,452
2020	198,448	78,923	354,029	158,962
2021	120,500	74,334	134,000	149,222
2022	124,500	70,534	137,500	145,110
2023	128,000	66,608	141,000	140,771
2024-2028	674,500	262,950	610,000	639,234
2029-2035	1,078,000	159,326	1,052,000	697,329
2036-2045	-	-	2,060,000	449,320
	<u>\$ 2,556,609</u>	<u>\$ 798,629</u>	<u>\$ 4,832,880</u>	<u>\$ 2,547,400</u>

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

The debt agreements contain various non-financial covenants. Management believes that the Town is in compliance with all such covenants as of June 30, 2018.

**11. Lease Revenue**

The Town has leased a combined total of 20,000 square feet of land over two locations with an estimated value of approximately \$376,000 to be used for cell towers under operating leases which expire at various times beginning July 2019 through October 2022. Unless the lessee opts out, the lease agreements automatically renew for additional periods expiring at various times beginning September 2021 through April 2052. In addition to monthly rent, lessees are responsible for any taxes, assessments, charges, or fees attributable to the use of the land. The leases contain clauses for annual increases ranging from 2% to 4%. In fiscal year 2018, monthly lease fees ranged from \$1,372 to \$4,682. Revenue is recognized as rent becomes due. During the current year, the Town recorded revenues totaling \$190,403.

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

2019	\$	196,300
2020		133,397
2021		138,194
2022		89,123
2023		16,991
		<u>574,005</u>
	\$	<u>574,005</u>

**12. Retirement Plan**

*Plan Description*

The Town contributes to the State Retirement and Pension System of Maryland (the Plan), a cost sharing multiple-employer public employee retirement system administered by the State Retirement and Pension System of Maryland. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board of Trustees of the State Retirement and Pension System of Maryland has the authority to establish and amend benefit provisions. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201-2363.

*Contributions*

Individual plan members are not required to contribute to the plan; however, the Town is required to make annual contributions equal to the actuarially-determined annual pension cost. Such contribution requirements are established, and may be amended, by the Plan's Board of Trustees. The actuarially-determined contribution rate for the year ended June 30, 2018 was 7.45% of covered payroll. The Town's contribution to the plan was \$61,177 for the year ended June 30, 2018.

The Town has a responsibility for funding employees' contributions that are members of the Employees' Retirement System of the State of Maryland. Therefore, the Town has been instructed to treat this plan as a cost-sharing multi-employer defined benefit pension plan.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

*Plan Costs*

At June 30, 2018, the Town reported a liability of \$639,824 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on the Town's contributions to the System in relation to total system contributions including direct aid from the State of Maryland. At June 30, 2017, the Town's proportionate share was 0.003%.

For the year ended June 30, 2018, the Town recognized pension expense of \$123,569.

At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 18,146	\$ -
Net difference between projected and actual investment earnings	58,567	29,257
Net difference between projected and actual experience	-	36,107
Contributions subsequent to the measurement date	61,177	-
Total	<u>\$ 137,890</u>	<u>\$ 65,364</u>

Deferred inflows and outflows of resources are made up of employer contributions, changes in actuarial assumptions, differences in actual and expected experience, and net differences in the projected and actual 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, 2017 reduce net pension liability for the year ended June 30, 2018. Deferred inflows and outflows related to non-investment activity are being amortized over their estimated remaining service life of ranging from 5 to 5.87 years. The net difference in investment earnings is being amortized over a closed five-year period. The following table shows the amortization of the balances:

Year End June 30,	Deferred Outflows		Deferred Inflows	
	Change in Assumptions	Net Difference in Investment Earnings	Net Difference in Investment Earnings	Actual and Expected Experience
2019	\$ 6,715	\$ 22,965	\$ (13,920)	\$ (8,600)
2020	5,551	22,965	(5,112)	(8,600)
2021	4,900	12,637	(5,112)	(8,334)
2022	551	-	(5,113)	(6,394)
2023	429	-	-	(4,179)
	<u>\$ 18,146</u>	<u>\$ 58,567</u>	<u>\$ (29,257)</u>	<u>\$ (36,107)</u>

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

*Actuarial Assumptions*

The total pension liability as of June 30, 2018 was determined by rolling forward the Employees' Maryland State Retirement and Pension System's total pension liability as of the June 30, 2017 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal
- Amortization method – Level Percentage of Payroll, Closed
- Inflation – 2.65% general, 3.15% wage
- Salary increases – 3.15% to 9.15%, including inflation
- Discount rate – 7.50%
- Investment rate of return – 7.50%
- Mortality – RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

*Pension Liability Sensitivity*

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

Description	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.50%	7.50%	8.50%
Town's Proportionate Share of Pension Liability	\$ 906,757	\$ 639,824	\$ 418,345

*Pension Plan Fiduciary Net Position*

Detailed information about the System's fiduciary's net position is available in a separately-issued System financial report which may be requested by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202 or by calling 410-625-5555.

**13. Recent Governmental Accounting Standards Board (GASB) Pronouncements**

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing of recognition and measurement of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). Additionally, the Statement establishes disclosure requirements related to those AROs. This Statement is effective for reporting periods beginning after June 15, 2018.

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

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements by requiring additional essential information related to debt including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default or termination with finance-related consequences and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

NOTES TO THE FINANCIAL STATEMENTS

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In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement supersedes the current accounting guidance and requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement is effective for reporting periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization by clarifying when that interest should be reported as an investment or as a component unit. This Statement is effective for reporting periods beginning after December 15, 2018.

The Town has not yet completed the process of evaluating the impact of these GASB Statements on its financial statements.

**14. Subsequent Events**

The Town has evaluated events and transactions subsequent to June 30, 2018 through October 22, 2018, the date these financial statements were available to be issued. Based on the definitions and requirements of accounting principles generally accepted in the United States of America, management has not identified any events that have occurred subsequent to June 30, 2018 through October 22, 2018, that require recognition or disclosure in the financial statements.

## **Required Supplementary Information**

BURGESS AND COMMISSIONERS OF MIDDLETOWN

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

<u>June 30,</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The Town's proportion of net pension liability*	0.0029589%	0.0026999%	0.0028211%	0.0022671%
The Town's proportionate share of net pension liability*	\$ 639,824	\$ 637,015	\$ 586,272	\$ 402,331
The Town's covered payroll	\$ 821,164	\$ 853,025	\$ 708,846	\$ 689,798
The Town's proportionate share of net pension liability as a percentage of its covered payroll	77.92%	74.68%	82.71%	58.33%
Plan fiduciary net position as a percentage of total pension liability*	69.38%	65.79%	68.78%	71.87%

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

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
 SCHEDULE OF THE TOWN'S CONTRIBUTIONS –  
 MARYLAND STATE RETIREMENT AND PENSION SYSTEMS

<u>June 30,</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 61,177	\$ 60,223	\$ 52,596	\$ 59,461
Contributions in relation to statutorily required contributions	<u>61,177</u>	<u>60,223</u>	<u>52,596</u>	<u>59,461</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Town's covered payroll	\$ 821,164	\$ 853,025	\$ 708,846	\$ 689,798
Contributions as a percentage of covered payroll	7.45%	7.06%	7.42%	8.62%

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

BURGESS AND COMMISSIONERS OF MIDDLETOWN  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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**1. Changes of Benefit Terms**

There were no changes of benefit terms.

**2. Changes of Assumptions**

Adjustments to the roll-forward liabilities were made to reflect the following assumptions change in the 2017 valuation:

- Inflation assumption changed from 2.90% to 2.65%

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>REVENUES</u>			
<u>LOCAL TAXES</u>			
Real estate, net of discounts	\$ 1,253,427	\$ 1,288,907	\$ 35,480
Tangible personal property	38,248	46,542	8,294
Public utility	9,827	-	(9,827)
Penalties and interest	10,544	244	(10,300)
	<u>1,312,046</u>	<u>1,335,693</u>	<u>23,647</u>
<u>STATE SHARED TAXES AND GRANTS</u>			
Admission and amusement	21,526	26,197	4,671
Highway	160,606	161,045	439
Income	896,179	1,034,356	138,177
Police protection	26,187	26,197	10
	<u>1,104,498</u>	<u>1,247,795</u>	<u>143,297</u>
<u>COUNTY SHARED TAXES</u>			
Tax equity program	610,423	610,423	-
<u>LICENSES AND PERMITS</u>			
Planning and zoning	27,950	13,188	(14,762)
Business and traders licenses	4,900	6,444	1,544
	<u>32,850</u>	<u>19,632</u>	<u>(13,218)</u>
<u>MISCELLANEOUS</u>			
Interest income	-	15,340	15,340
State grants	78,703	993	(77,710)
Franchise (cable) taxes	50,615	50,664	49
Pavilion fees	3,158	3,958	800
Improvement fees	-	176,000	176,000
Miscellaneous income	2,500	2,480	(20)
	<u>134,976</u>	<u>249,435</u>	<u>114,459</u>
<b>TOTAL REVENUES</b>	<b>\$ 3,194,793</b>	<b>\$ 3,462,978</b>	<b>\$ 268,185</b>

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>EXPENDITURES</u>			
<u>GENERAL GOVERNMENT</u>			
<u>LEGISLATIVE</u>			
Advertising	\$ 2,500	\$ -	\$ (2,500)
Communications	9,480	10,521	1,041
Conventions and meetings	15,000	12,839	(2,161)
Dues and subscriptions	7,400	6,485	(915)
Office supplies and expense	7,500	6,806	(694)
Salaries - commissioners	16,500	16,750	250
	<u>58,380</u>	<u>53,401</u>	<u>(4,979)</u>
<u>EXECUTIVE</u>			
Salary - burgess	<u>10,200</u>	<u>10,200</u>	<u>-</u>
<u>PROFESSIONAL SERVICES</u>			
Audit fee and other professional services	16,000	13,475	(2,525)
Legal - development and ordinance	7,388	9,329	1,941
	<u>23,388</u>	<u>22,804</u>	<u>(584)</u>
<u>PLANNING AND ZONING</u>			
Salaries	51,797	43,766	(8,031)
Zoning expenses	1,778	9,805	8,027
	<u>53,575</u>	<u>53,571</u>	<u>(4)</u>
<u>GENERAL SERVICES</u>			
<u>ADMINISTRATION</u>			
Capital outlay	-	208,288	208,288
Interest	-	6,962	6,962
Capital lease payments	-	32,836	32,836
Administrative salaries	254,512	273,948	19,436
Communications	7,205	9,996	2,791
Computer expense	29,512	29,159	(353)
Dues and subscriptions	150	-	(150)
Meetings and conventions	100	4	(96)
Office supplies and expense	27,953	46,210	18,257
Office maintenance and utilities	29,600	34,909	5,309
Postage and printing	200	13	(187)
Professional services	4,600	560	(4,040)
	<u>\$ 353,832</u>	<u>\$ 642,885</u>	<u>\$ 289,053</u>

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>OPERATIONS</u>			
Operations salary	\$ 231,766	\$ 256,811	\$ 25,045
Communications	9,000	8,907	(93)
Dues and subscriptions	-	1,506	1,506
Maintenance and repairs	28,173	27,493	(680)
Supplies and expense	17,960	13,980	(3,980)
Tools and equipment	2,544	7,907	5,363
	<u>289,443</u>	<u>316,604</u>	<u>27,161</u>
<u>PUBLIC SAFETY</u>			
Fire company donation	20,000	20,000	-
School safety guard and supplies	16,338	17,875	1,537
Community deputy program	385,232	390,014	4,782
	<u>421,570</u>	<u>427,889</u>	<u>6,319</u>
<u>SANITATION AND WASTE REMOVAL</u>			
Resident trash and yard waste	271,796	279,637	7,841
<u>PARKS, RECREATION AND CULTURE</u>			
Capital outlay	-	161,137	161,137
Rensburg Park interest	7,906	7,906	-
Rensburg Park loan payments	115,643	115,643	-
Park salaries	45,030	38,083	(6,947)
Park electricity	1,175	6,756	5,581
Park repairs and maintenance	37,490	42,785	5,295
Park mowing	32,319	22,747	(9,572)
	<u>239,563</u>	<u>395,057</u>	<u>155,494</u>
<u>HIGHWAYS AND STREETS</u>			
Capital outlay	-	779,682	779,682
Interest	59,874	83,248	23,374
East Green Street loan payments	-	13,000	13,000
West Green Street loan payments	79,300	99,505	20,205
Maintenance salaries	71,266	82,589	11,323
Equipment operations and repairs	26,675	10,986	(15,689)
Mowing	33,440	31,720	(1,720)
Repairs and resurfacing	92,000	41,556	(50,444)
Signs	12,400	10,459	(1,941)
Street lighting	203,160	156,398	(46,762)
Snow removal	83,100	76,655	(6,445)
Storm water management	7,800	2,167	(5,633)
Truck repair and operation	42,600	31,061	(11,539)
	<u>\$ 711,615</u>	<u>\$ 1,419,026</u>	<u>\$ 707,411</u>

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 YEAR ENDED JUNE 30, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>MAIN STREET</u>			
Salaries	\$ 45,482	\$ 46,170	\$ 688
Town contribution	10,000	12,503	2,503
	<u>55,482</u>	<u>58,673</u>	<u>3,191</u>
<u>MISCELLANEOUS</u>			
MT Historical Society - CIP	5,000	5,000	-
Community events	33,140	67,545	34,405
Donations	100	-	(100)
Insurance - property	14,445	13,835	(610)
Insurance - employee	136,214	151,398	15,184
Payroll taxes	58,923	54,970	(3,953)
Pension	68,184	57,944	(10,240)
Real estate taxes	800	1,679	879
Travel	2,732	1,027	(1,705)
Web page and directory	3,890	2,979	(911)
Other	3,500	2,932	(568)
	<u>326,928</u>	<u>359,309</u>	<u>32,381</u>
<u>ELECTION</u>			
Clerk fees	450	560	110
Other administrative expenses	250	122	(128)
	<u>700</u>	<u>682</u>	<u>(18)</u>
TOTAL EXPENDITURES	<u>2,816,472</u>	<u>4,039,738</u>	<u>1,223,266</u>
<u>OTHER FINANCING SOURCES</u>			
Debt financing proceeds	<u>-</u>	<u>184,756</u>	<u>184,756</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	<u>\$ 378,321</u>	<u>\$ (392,004)</u>	<u>\$ (770,325)</u>

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND  
YEAR ENDED JUNE 30, 2018

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL OVER (UNDER) BUDGET</u>
<u>OPERATING REVENUES</u>			
Charges for services:			
Water revenue	\$ 608,726	\$ 607,180	\$ (1,546)
Sewer revenue	603,153	602,269	(884)
Penalties and interest	15,252	13,135	(2,117)
Water tower cell phone antenna leases	-	190,403	190,403
	<u>1,227,131</u>	<u>1,412,987</u>	<u>185,856</u>
<u>ADMINISTRATIVE EXPENSES</u>			
Depreciation	-	416,727	416,727
Salaries - office	48,827	28,510	(20,317)
Advertising	500	988	488
Communications	11,742	11,540	(202)
Dues and subscriptions	500	330	(170)
Insurance - property	10,215	8,448	(1,767)
Insurance - worker's compensation	8,980	8,770	(210)
Insurance - health	53,324	52,216	(1,108)
Meetings and seminars	2,500	758	(1,742)
Office supplies and expense	15,712	12,005	(3,707)
Payroll taxes	27,798	23,483	(4,315)
Pension	29,320	44,256	14,936
Postage	9,503	8,013	(1,490)
Professional services - legal	2,000	2,717	717
Real estate taxes	292	292	-
Travel	200	52	(148)
Uniforms	3,925	5,835	1,910
Rain barrel/educational programs	2,000	75	(1,925)
I & I loan principal and interest	33,099	-	(33,099)
	<u>260,437</u>	<u>625,015</u>	<u>364,578</u>
<u>VEHICLES AND EQUIPMENT</u>			
2008 Truck	2,280	6,660	4,380
2012 Truck	2,280	4,666	2,386
2013 Truck	2,280	3,700	1,420
2015 Truck	2,280	1,595	(685)
2016 Truck	2,280	82	(2,198)
Miscellaneous Equipment	3,000	-	(3,000)
Bobcat Mini-Excavator	3,000	421	(2,579)
Case Backhoe	3,000	1,397	(1,603)
	<u>20,400</u>	<u>18,521</u>	<u>(1,879)</u>
<u>WATER EXPENSES</u>			
<u>WATER</u>			
Salaries and wages	\$ 175,294	\$ 170,981	\$ (4,313)

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND  
YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WATER DISTRIBUTION SYSTEM</u>			
Chemicals	\$ 500	\$ -	\$ (500)
Repairs and maintenance	18,900	69,984	51,084
Supplies	5,500	17,720	12,220
Tools and equipment	4,105	-	(4,105)
Water line break repairs	5,000	1,435	(3,565)
	<u>34,005</u>	<u>89,139</u>	<u>55,134</u>
<u>TOTAL WATER DISTRIBUTION SYSTEM EXPENSES</u>			
<u>WATER SOURCES AND TREATMENT</u>			
Electric	23,816	39,233	15,417
Supplies	2,000	1,323	(677)
Repairs and maintenance	66,700	19,920	(46,780)
Chemicals	9,199	13,114	3,915
Tools and equipment	2,053	-	(2,053)
Testing and analysis	14,400	7,562	(6,838)
	<u>118,168</u>	<u>81,152</u>	<u>(37,016)</u>
<u>TOTAL WATER PLANT SYSTEM</u>			
<u>TOTAL WATER SYSTEM EXPENSES</u>			
	<u>327,467</u>	<u>341,272</u>	<u>47,809</u>
<u>SEWER EXPENSES</u>			
<u>SEWER</u>			
Salaries and wages	134,998	144,908	9,910
<u>SEWER COLLECTION SYSTEM</u>			
Cone Branch pumping station	18,500	26,475	7,975
Brookridge South pumping station	10,779	3,844	(6,935)
Foxfield pumping station	6,500	5,574	(926)
Sanitary sewer lines and manholes	25,000	37,559	12,559
Inflow and infiltration	75,000	75,000	-
	<u>135,779</u>	<u>148,452</u>	<u>12,673</u>
<u>TOTAL SEWER COLLECTION SYSTEM EXPENSES</u>			
<u>EAST WASTEWATER TREATMENT PLANT</u>			
Chemicals	33,725	47,650	13,925
Electric	25,327	53,520	28,193
Repairs and maintenance	16,600	14,852	(1,748)
Sludge hauling	61,800	44,428	(17,372)
Supplies	6,352	3,726	(2,626)
Testing and analysis	34,187	25,263	(8,924)
Tools and equipment	6,090	982	(5,108)
	<u>184,081</u>	<u>190,421</u>	<u>6,340</u>
<u>TOTAL EAST WASTEWATER TREATMENT PLANT EXPENSES</u>			

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

BURGESS AND COMMISSIONERS OF MIDDLETOWN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET POSITION - BUDGET AND ACTUAL - WATER AND SEWER FUND  
YEAR ENDED JUNE 30, 2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
<u>WEST WASTEWATER TREATMENT PLANT</u>			
Chemicals	\$ 47,949	\$ 51,638	\$ 3,689
Electric	17,010	39,024	22,014
Repairs and maintenance	2,000	5,289	3,289
Sludge hauling	22,650	17,250	(5,400)
Supplies	2,500	1,292	(1,208)
Testing and analysis	11,649	9,908	(1,741)
Tools and equipment	2,510	705	(1,805)
TOTAL WEST WASTEWATER TREATMENT PLANT EXPENSES	<u>106,268</u>	<u>125,106</u>	<u>18,838</u>
TOTAL SEWER SYSTEM EXPENSES	<u>561,126</u>	<u>608,887</u>	<u>47,761</u>
TOTAL OPERATING EXPENSES	<u>1,169,430</u>	<u>1,593,695</u>	<u>458,269</u>
OPERATING INCOME (LOSS)	<u>57,701</u>	<u>(180,708)</u>	<u>(272,413)</u>
<u>OTHER INCOME (EXPENSE)</u>			
Debt service fee	-	148,100	148,100
Connection fees	-	486,000	486,000
Capital improvement fee	-	159,088	159,088
Miscellaneous income	1,000	6,252	5,252
Capital contributions from developers	-	11,190	11,190
Interest income	-	15,560	15,560
Interest expense	-	(38,354)	(38,354)
TOTAL OTHER INCOME (EXPENSE)	<u>1,000</u>	<u>787,836</u>	<u>786,836</u>
NET INCOME (LOSS)	<u>\$ 58,701</u>	<u>\$ 607,128</u>	<u>\$ 514,423</u>

\* There were no significant budget amendments made during fiscal year 2018, therefore, the budget column shown is the original and final budget.

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

**Burgess and Commissioners of Middletown**  
Middletown, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the **Burgess and Commissioners of Middletown (“the Town”)** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated October 22, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

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

*Albright Crumbacker Moul & Itell LLC*

Hagerstown, Maryland  
October 22, 2018

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& ITELL

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