

Audited
Financial
Statements

June 30,
2019

Burgess and Commissioners
of Walkersville, MD

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INDEPENDENT AUDITOR'S REPORT

Burgess and Commissioners of Walkersville, MD
Walkersville, 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 Walkersville, MD (Town), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Burgess and Commissioners of Walkersville, MD's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 Burgess and Commissioners of Walkersville, MD, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Town adopted new accounting guidance, Government Accounting Standards Board ("GASB") Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, as of January 1, 2018. Our opinion has not been modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 through 19 and 51 through 54 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Burgess and Commissioners of Walkersville, MD's basic financial statements. The budgetary comparison information for the water fund on page 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The water fund budgetary comparison statement has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019 on our consideration of the Burgess and Commissioners of Walkersville, MD'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Burgess and Commissioners of Walkersville, MD's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
October 21, 2019

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

The management of the Burgess and Commissioners of Walkersville, MD (Town of Walkersville) provides the following narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2019. We offer this information for all those interested citizens who want to invest the time to read and understand their Town's financial operations. The basic financial statements are comprised of the government-wide financial statements, fund financial statements, and notes to financial statements. We encourage readers to consider the information presented here in conjunction with additional information provided within the statements to further enhance their understanding of the Town's financial performance.

FINANCIAL HIGHLIGHTS

- ❖ The assets of the Town of Walkersville exceeded its liabilities at the close of June 30, 2019 by \$20,217,714 (*net position*). Of this amount, \$8,751,509 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The Town's total net position decreased by \$1,305,447 and the Town decreased its cash and equivalents by \$715,966. The General Fund decreased cash and equivalents by \$228,198, and the Water Fund decreased by \$487,768. Additionally, certificates of deposit decreased \$749,801 for both funds combined. You will notice a significant cash outflow throughout the statements due to the cash needed to pay for the new water plant construction and the funds loaned from the General Fund to the Water Fund to provide the cash flow to accomplish this.
- ❖ The General Fund reflected a positive change in fund balance in the amount of \$743,429 and the Water Fund reflected a drop in net position in the amount of (\$1,728,776).
- ❖ As of June 30, 2019, the Town of Walkersville's governmental fund reported ending fund balances of \$10,380,159, an increase of \$743,429 in comparison with the prior year, once again reflecting a fiscally strong and positive position for the Town.
- ❖ The Town's business-type activities earned income from operations in the amount of \$47,729. Operating revenues increased in the Water Fund by \$76,927, or 6.7% to \$1,225,387. At the same time, operating expenses increased by \$97,456 or 9.0%, due mainly to increases in salaries, distribution maintenance, and pension plan expenses. Charges for services (water usage fees) were consistent with adopted water rates and only up by \$4,580, to \$1,129,065, a .4% increase. Wireless tower income (a non-operating source of income) increased by \$7,790, to \$200,072 based on annual 3-4% annual contract increases with the cellular carriers. The Frederick County charge for the projected increased sewer capacity fee to the Town, \$1,983,068, was quite staggering, and is reflected in non-operating revenues (expenses).
- ❖ At June 30, 2019, the Town is no longer debt free. The ongoing construction of the water plant requires payment of the draws and then submission to the Maryland Department of the Environment (MDE) for reimbursement of the construction billing. The project is underway by M2 Construction. Maryland Department of the Environment will finance the cost of the new plant. The Town has committed to 2 loans, issued via bonds, one tax-exempt loan in the amount of \$7,271,545 and one forgivable loan in the amount of \$1,500,000.
- ❖ Plant, property, and equipment of the Governmental Activities totaled \$15,587,553 before factoring in accumulated depreciation. An increase of \$139,126 of infrastructure and property was recognized. There was a corresponding increase in accumulated depreciation of \$411,173 on these assets. Net capital assets used in governmental activities of the Town decreased by \$272,047 down to a total of \$6,520,662.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

- ❖ The General Fund adopted an emergency ordinance to loan funds to the Water Fund in order to pay the Frederick County sewer capacity fee. An amended budget was prepared to designate funds from surplus in the amount of \$1,900,000. Taking this into account the General Fund revenues were \$132,735 more than expected for the year. The Town underspent the projected budget by \$610,694.
- ❖ The Town continues to operate conservatively, managing its resources responsibly. Typically this statement is included every year in the MD&A. In September 2018, the Town held its triennial election, electing 4 brand new commissioners. The Burgess and Commissioners are not interested in having as robust a reserve as per previous years. As a result, years to come will include a myriad of town improvement projects in an effort to reduce the amount of investments in the Maryland Local Government Investment Pool (MLGIP) and Certificates of Deposit held by the Town.
- ❖ The Burgess and Commissioners approved the real estate property tax rate of 16.0¢ per \$100 of assessed property value for FY 2019. This rate generated revenue in the amount of \$967,359, an increase of \$26,374. The Town was able to add two additional Maryland State Police Resident Troopers to the Town's roster, for a total of 5 police officers serving the Town. Discussion still is occurring regarding the possibility of offering 24/7 police protection to Town residents. Currently the cost is \$1,038,651 for 5 resident troopers in FY 2019. The Town still operated with one of the lowest tax rates in the State of Maryland.
- ❖ The Maryland State Retirement and Pension System, of which the Burgess and Commissioners of Walkersville, MD is a participating governmental unit, has implemented GASB No. 68. Financial statements of the participating employers are required to utilize GASB No. 68 as of June 30, 2016. This is the fourth year that the Town is required to report its proportionate share of the State's unfunded liability. As of June 30, 2019, the statements include a net pension liability in the amount of \$705,083, allocated between the General Fund and the Water Fund in the amounts of \$540,741 and \$164,342, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the Burgess & Commissioners of Walkersville, MD's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide an interested citizen with a broad overview of the Burgess & Commissioners of Walkersville, MD's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Burgess & Commissioners of Walkersville, MD's assets and liabilities, with the difference between the two 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 Burgess & Commissioners of Walkersville, MD is improving or deteriorating.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

The Statement of Activities presents information showing how the government's net position changed during the most recent 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 of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Burgess & Commissioners of Walkersville, MD that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Burgess & Commissioners of Walkersville, MD include general government, public safety, public works, waste collection and disposal, recreation and culture, non-departmental, and capital outlay. The business-type activity of the Burgess & Commissioners of Walkersville, MD consists of a Water treatment and distribution operation.

The government-wide financial statements can be found on pages 20-21 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Burgess & Commissioners of Walkersville, MD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Burgess & Commissioners of Walkersville, MD can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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, citizens may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Walkersville maintains one governmental fund. The information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the major fund.

The Town of Walkersville adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management's Discussion and Analysis (Unaudited)

The basic governmental fund financial statements can be found on pages 22-25 of this report.

Proprietary Funds

The Town of Walkersville maintains one proprietary fund, an Enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Walkersville uses the enterprise fund to account for its Water Treatment and Distribution Company.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water Treatment and Distribution Company, which is a major fund of the Town of Walkersville.

The basic proprietary fund financial statements can be found on pages 26-29 of this report.

1) Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-50 of this report.

2) Required supplementary information can be found on pages 51-54.

3) Other supplementary information can be found on page 55.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management's Discussion and Analysis (Unaudited)

Town of Walkersville
Net Position Summary

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current and other assets	\$ 10,895,365	\$ 10,270,239	\$ (289,549)	\$ 1,791,374	\$ 10,605,816	\$ 12,061,613
Capital assets	6,520,662	6,792,712	6,984,666	4,070,378	13,505,328	10,863,090
Deferred outflows of resources	136,580	147,698	41,509	43,126	178,089	190,824
Total Assets and Deferred Outflows of Resources	\$ 17,552,607	\$ 17,210,649	\$ 6,736,626	\$ 5,904,878	\$ 24,289,233	\$ 23,115,527
LIABILITIES						
Current liabilities	515,206	633,509	704,534	201,352	1,219,740	834,861
Noncurrent liabilities	540,741	507,115	2,203,465	148,072	2,744,206	655,187
Total Liabilities	1,055,947	1,140,624	2,907,999	349,424	3,963,946	1,490,048
Deferred inflows of resources	82,500	79,194	25,073	23,124	107,573	102,318
NET POSITION						
Invested in capital assets, net of related debt	6,520,662	6,792,712	4,945,543	4,070,378	11,466,205	10,863,090
Unrestricted	9,893,498	9,198,119	(1,141,989)	1,461,952	8,751,509	10,660,071
Total Net Position	16,414,160	15,990,831	3,803,554	5,532,330	20,217,714	21,523,161
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 17,552,607	\$ 17,210,649	\$ 6,736,626	\$ 5,904,878	\$ 24,289,233	\$ 23,115,527

The Town of Walkersville's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$21,523,161 at the close of the June 30, 2018 fiscal year, and by \$20,217,714 at the close of June 30, 2019, a decrease in net position of (\$1,305,447), (6.1%). Total assets and deferred outflows of resources of \$23,115,527 at June 30, 2018 increased to \$24,289,233 by June 30, 2019, an increase of \$1,173,706, (5.1%). The increase in net position consists of an increase of \$603,115 in net investment in capital assets and a decrease of \$1,908,562 in unrestricted net position.

The largest portion of the Town of Walkersville's net position is its investment in capital assets (e.g., land, buildings, machinery, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding (\$11,466,205 or 56.7% of total net position). The Town of Walkersville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported. Accordingly, the Town has chosen to report all of its infrastructure assets with the implementation of GASB Statement No. 34, including certain developer constructed assets whose value was determined by using market prices for the year of construction. Additionally, the Town must elect either 1) depreciate these assets over their estimated useful life, or 2) develop a system of asset management designed to maintain their condition perpetually and to report on their condition within the financial statements. The Town elected the first method and uses the depreciation method on infrastructure systems reporting.

Of the remaining Town assets, \$10,325,077 is accounted for in cash, cash equivalents, and pooled investments, \$239,736 in receivables, \$24,173 in inventory, and \$16,830 in prepaid expenses.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management’s Discussion and Analysis (Unaudited)

At June 30, 2019, the Town has ended its stint of being debt-free. To date, the Town has financed through MDE \$2,039,123 of the new water plant. In addition, total liabilities include \$985,277 in accounts payable, deposits of \$88,663 for amounts held in escrow for various projects, \$85,206 for staff accumulated leave and tax withholdings, unearned revenue of \$55,929, accrued interest payable of \$4,665, and \$705,083 for net pension liability.

At June 30, 2018 and 2019, the Town had positive balances in all categories of net position, except for the business-type activities unrestricted net position in the amount of (\$1,141,989), again due to the cash needed for construction of the new water plant and its increased capacity fee.

Statement of Activities – Changes in Net Position

The following schedule summarizes revenues and expenses for the current fiscal year:

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program Revenues						
Charges for services, fees fines	\$ 37,794	\$ 40,292	\$ 1,425,459	\$ 1,340,742	\$ 1,463,253	\$ 1,381,034
Operating grants and contributions	44,151	43,819	-	-	44,151	43,819
General Revenues						
Property taxes	1,244,637	1,088,086	-	-	1,244,637	1,088,086
Other state and local taxes	2,084,095	2,020,474	-	-	2,084,095	2,020,474
Other	337,979	268,496	23,537	16,313	361,516	284,809
Total Revenues	<u>3,748,656</u>	<u>3,461,167</u>	<u>1,448,996</u>	<u>1,357,055</u>	<u>5,197,652</u>	<u>4,818,222</u>
EXPENSES						
General government	577,586	574,490	-	-	577,586	574,490
Public safety	1,078,835	883,782	-	-	1,078,835	883,782
Public works	902,753	825,301	-	-	902,753	825,301
Waste collection and disposal	224,500	231,768	-	-	224,500	231,768
Recreation and culture	191,973	220,182	-	-	191,973	220,182
Non-departmental	349,680	291,658	-	-	349,680	291,658
Water utility services	-	-	3,177,772	1,080,202	3,177,772	1,080,202
Total Expenses	<u>3,325,327</u>	<u>3,027,181</u>	<u>3,177,772</u>	<u>1,080,202</u>	<u>6,503,099</u>	<u>4,107,383</u>
Change In Net Position	423,329	433,986	(1,728,776)	276,853	(1,305,447)	710,839
NET POSITION - BEGINNING	<u>15,990,831</u>	<u>15,556,845</u>	<u>5,532,330</u>	<u>5,255,477</u>	<u>21,523,161</u>	<u>20,812,322</u>
NET POSITION - ENDING	<u>\$ 16,414,160</u>	<u>\$ 15,990,831</u>	<u>\$ 3,803,554</u>	<u>\$ 5,532,330</u>	<u>\$ 20,217,714</u>	<u>\$ 21,523,161</u>

Total revenues for the Town of Walkersville were \$5,197,652 for the year ended June 30, 2019, up \$379,430 (7.9%) from FY 2018. Governmental activities provided \$3,748,656 and business-type activities provided \$1,448,996, primarily from charges for water services and non-operating wireless tower income. Total expenses for governmental activities were \$3,325,327 and total expenses for business-type activities were \$3,177,772. Net position at June 30, 2019 totaled \$20,217,714, a decrease of \$1,305,447 from the June 30, 2018 net position of \$21,523,161.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management’s Discussion and Analysis (Unaudited)

Financial Analysis of the Town’s Funds

The Town of Walkersville uses fund accounting to demonstrate compliance with municipal legal requirements. The following is a financial analysis of the Town’s governmental and proprietary funds:

Governmental Funds Revenue and Expense Analysis

The general governmental functions are contained in the General Fund. The focus of the Town’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. On June 30, 2019, the unassigned fund balance of the General Fund was \$9,891,378, up \$591,818 from June 30, 2018.

**Town of Walkersville
Revenues Classified by Source
Governmental Funds**

	<u>Amount</u>		<u>Percent of Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues				
Local property taxes and interest	\$1,244,637	\$1,088,086	33.20%	31.43%
Licenses and permits	30,025	30,184	0.80%	0.87%
Grants and shared taxes	2,123,470	2,054,662	56.65%	59.35%
Other revenue	350,528	288,817	9.35%	8.34%
Total Revenues	<u>\$3,748,660</u>	<u>\$3,461,749</u>	<u>100.00%</u>	<u>100.00%</u>

The following provides an explanation of changes in revenues by source over the prior year.

- ❖ **Local property taxes and interest** – This consists of real and personal property tax revenues and the penalties and interest thereon. Gross real property tax revenues were \$967,359, up \$26,374 (2.8%) from last year. The tax rate of 16.0¢ per \$100 of assessed value tax rate remained in effect and the net assessable real property base increased by \$17,238,602. The gross business personal property tax revenue increased by \$129,929 (94.5%) to \$267,478, starting to come back from the effect of the 3 refunds issued to Lonza last year for claims for refunds. Personal property taxes are assessed based on taxpayer-provided information. The timing and amounts of reportable inventories affect the revenues from personal property assessment returns, so it is impossible to explain or predict the changes. Penalties and interest category remained steady, only increasing by \$248, to \$9,800.
- ❖ **Licenses and permits** – This consists of traders licenses and planning and zoning licensing and review fees. Traders licenses remained steady with a slight increase of \$221 to \$5,285. Planning and zoning fees decreased slightly by \$380, to \$24,740. Developer review and improvement fees continue to be collected for the development of Longley Green and the Spring View Estates (Bell property). Rutters and Mill Run have been completed and Parkside is close behind.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management’s Discussion and Analysis (Unaudited)

- ❖ **Grants and shared taxes** – This category includes admissions and amusement tax, highway taxes, police protection grant, Program Open Space, income taxes, grant in lieu of property taxes, and the tax equity program from Frederick County. The total grants and shared taxes increased by \$68,808 to \$2,123,470. There was a significant decrease in Admissions and Amusement tax of \$16,993, from \$67,737 to \$50,744 (25.1%). All other categories reflected increases as follows: Highway user revenues increased by \$18,030, a 9.2% increase to \$213,306, grant for police protection was up \$5,187 due to increase to 5 Maryland State Police Resident troopers for part of the year, Frederick County shared income taxes increased by \$11,262 to \$921,708, a 1.2% increase, and tax equity from Frederick County increased by \$51,322, to \$ 898,337, a 6.1% increase over last year’s \$847,015. Tax Equity from the County is a reimbursement of taxes to Walkersville taxpayers for services provided by the Town in lieu of the County providing them. It is based on a formula devised by Frederick County and is not based on what the Town spent but what the County spends to provide the services.

- ❖ **Other revenue** – Other revenue includes interest income, franchise fees, senior citizens revenue, rental income, snow/mow removal income, miscellaneous revenues, and various other minor revenues. This category increased \$61,711, or 21.4%, due to a combination of changes in the categories of interest income, franchise fees, rental income, and other as follows: interest income increased by \$95,055 as rates have exceeded 2% during the fiscal year, and rental income increased by \$10,613, or 21.9%. Franchise fees decreased \$2,768, or 3.4%, which is hard to explain since Comcast Xfinity fees continue to rise on customers. Other revenue decreased by \$37,117 due to last year’s recognition of retainage not paid by the Town.

Town of Walkersville
Expenditures by Function
Governmental Funds

	<u>Amount</u>		<u>Percent of Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Expenditures				
General government	\$ 522,689	\$ 519,846	17.39%	18.48%
Public safety	1,076,608	881,555	35.82%	31.34%
Public works	592,540	529,397	19.72%	18.82%
Waste collection and disposal	224,500	231,768	7.47%	8.24%
Recreation and culture	148,138	174,928	4.93%	6.22%
Non-departmental	301,630	291,782	10.04%	10.37%
Capital outlay	139,126	183,529	4.63%	6.52%
Total Expenditures	<u>\$ 3,005,231</u>	<u>\$ 2,812,805</u>	<u>100.00%</u>	<u>100.00%</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

The following provides an explanation of the expenditures by function that changed notably over the prior year:

- ❖ **General government** – The increase in the general government expenditures of \$2,843 is attributable in part to the following increases and decreases: office salaries decreased by \$7,783, or 3.3% due to an accountant working the entire year at a lower salary than the retired accountant. Operating expenditures decreased by \$2,276. Even though office supplies increased by \$1,559 and postage increased by \$306, bank fees decreased by \$635, capital outlay – equipment decreased \$2,275, and GIS non-capitalized expenditures went down by \$1,231. Training meetings and travel decreased by \$235. Computer expenditures, which is included in financial administration operating expenditures decreased by \$2,695. Legal expenditures decreased by \$8,422, or 41.4%, as legal issues and contact with the Town Attorney were lessened. Planning and zoning expenditures increased \$21,560, or 20.8%, which includes salary increases to the full-time Planning & Zoning Administrator and the continued review of plans for Spring View Estates, Longley Green, and the Parkside developments. Rutters, Sheetz, and Mill Run were in their final stages during the year. Utilities decreased by \$1,596, or 3.2%, as a result of more efficient lighting options.
- ❖ **Public safety** – This category increased overall by \$195,053 (22.1%) due to adding 2 additional Maryland State Police Resident Troopers for the full year, for a total of 5 troopers. The expenditures for this category increased by \$193,720 or 22.9%. Code Enforcement expenditures increased \$1,333 (11.4%) due to the hiring of a new Code Enforcement Officer, who works more hours per week at a lower hourly rate than the previous one. The Town still is operating proactively on code enforcement cases and 406 cases have been addressed for 2019 to date. The Town's contribution to the fire and rescue companies continues to be the annual amount \$12,500 each.
- ❖ **Public works** - This category increased overall by \$63,143, with an increase in maintenance salaries of \$45,078, a 13.0% increase. This includes raises limited to 4% for staff and various compensatory time payments. An additional entry level position was hired for FY 2019 and accounts for the \$32,000 of the increase. Maintenance on streets category increased by \$6,181 (10.1%). Parts, tools, and supplies increased by \$2,520, or 23.5% and truck and equipment expenditures were up by \$12,638 or 32.1%. Street lighting continued to go down by \$3,141, (5.0%) due to the utilization of LED street lighting on some of our streets. Safety went up \$ 509, inappropriately due to the Public Works division unilaterally charging some of their safety wear and boots to this category. For FY 2020, these items will go back to being charged to the uniforms and boots category as structured. Uniforms and boots are down by \$642 or 8.0% due to the activities of the Public Works division as explained above. The work clothing allowance remains \$600 per person, and the uniforms provided by Cintas cost approximately \$2,800 per person for those who utilize the service.
- ❖ **Waste collection and disposal** - This category decreased by \$7,268, due to placing less tonnage of trash in the county landfill. The base contract in the amount of \$90,000 plus tipping fees paid to Frederick County is renewable for the next 3 years. The Town continues to sponsor two annual bulk trash collection days, effectively reducing the impact on the landfill. Our established recycling dumpster continues to be successful and busy. Open 2 Wednesdays per month, with a hired recycling monitor, it received support and reimbursement this year from Frederick County in the amount of \$7,032.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management's Discussion and Analysis (Unaudited)

- ❖ **Recreation and culture** – This category decreased by \$26,790, or 15.3% overall with mostly decreases in the line items as follows: Parks and recreation decreased by \$23,783 or 36.0%. The Parks mowing contract remains consistent at \$87,831, and no extra tree trimming work was contracted for the parks this year. Heritage Manor house maintenance expenditures were steady with a slight increase of \$ 253. Senior Citizens meal expenditures were up by \$870 (7.8%). A new leader for the seniors is concentrating on getting the word out on their weekly activities and trying to address the dwindling numbers of participants.

- ❖ **Non-departmental** – Expenditures include retirement plan expenditures, workers' compensation insurance, payroll taxes, health, life and dental insurance, liability insurance, community donations, security measures, and miscellaneous other expenditures. The category increased overall by \$9,848, or 3.4%, with minimal fluctuations in most categories. The retirement plan expenditures increased by \$5,169, or 9.4%, as the State increased the Town contribution from 8.56% to 9.00% on 6/30/2018 salaries. Employee salary increases and the new rate contributed to the increase. Workers compensation increased by \$6,546 and payroll taxes increased by \$2,915 in direct proportion to the increase in salaries. Workers Compensation also increased due to an increase of .30 per \$100 in the municipal rate. Also, the policy audit resulted in a premium change of \$2,331 as the policy salaries estimate was \$83,817 short. Health, life and dental insurance decreased by \$509, due to changes in coverage for several employees. Liability insurance for the Town, acquired through LGIT remained steady with a slight increase of \$421. The category of community contributions increased by \$1,207 and includes donations to Glade Valley Community Show, Safe and Sane Graduation, and the Walkersville Branch of the Frederick County Public Library summer lunch program. The Town security camera maintenance contract and expenditures accounted for the total of \$6,935 in security measures. Non-departmental other consists of advertising & public notices, dues & subscriptions, election expenditures, Veterans' Day Ceremony, memorial bricks, the Town's 125th anniversary celebration, and miscellaneous expenditures. Advertising & public notices was down \$658, dues & subscriptions were down \$588, election expenses were \$837, up from \$0, as there was an election in September 2018, Veterans' Day Ceremony was down \$390 in this newly budgeted category, and miscellaneous expenditures were down by \$2,266. Expenditures for the 125th anniversary celebration were down \$6,973 and memorial bricks expenditures were up \$4,802.

- ❖ **Depreciation expense** – Implementation of GASB 34 required the Town to recognize depreciation expense in the government-wide financial statements on what was formerly the General Fixed Assets Account Group. This change primarily affects the Governmental Activities since what is now known as the Business-type Activities have always recorded depreciation expense. Depreciation expense is not a current use of funds; however, it is a measure of the diminishing utility of assets purchased or constructed with funds in previous years. Current year depreciation expense totaled \$411,173.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management's Discussion and Analysis (Unaudited)

ENTERPRISE FUND REVENUE AND EXPENSE ANALYSIS

Water Utility

Operating Revenues: Total operating revenues were up by \$76,927, an increase of 6.7%, with an increase in charges for service in the amount of \$4,580 (.4%). Since the Town implemented a 20% across the board rate increase for 10/1/2016, the revenue continues to be consistent between last year and this year. Connection fee revenues increased by \$70,850 as developments continue their build out. Meter service charges and penalties and interest remained steady with a decrease of \$510 and an increase of \$1,957 respectively.

Non-Operating Revenues (Expenses): Wireless telecommunication income increased by \$7,790 or 4.1%, for a total of \$200,072. Each lease includes annual rate increases on various dates during the year, ranging from 3-4%. Interest income is up by \$13,559, as rates have topped 2%, noted before. There was no equipment sold at auction this year, therefore no gain or loss recognized on the disposal of assets. Therefore, gain on disposal of assets is down by \$6,335. New for FY 2019 is non-operating expense of \$17,046, which represents the current year interest expense associated with the new water treatment plant debt. Also new for FY19 is the \$1,983,068 sewer capacity fee paid to Frederick County, which was a one-time fee and therefore not considered to be an operating expense. This occurred when the Town received notice that the permits for construction of the new water plant would be withheld until the increased capacity fee was paid to Frederick County.

Operating Expenses: The Water Fund's operating expenses increased overall by \$97,456 or 9.0%. Increases and decreases above \$8,000 are noted in the following categories: Increases in staff salaries by \$8,248, 3.9% reflects the 4% limitation on raises in FY 2019, the increase in distribution maintenance by \$50,747, 38.7%, includes \$27,174 of MD State mandated MS4 expenses. The additional increase in distribution maintenance of \$23,573 is due to a stockpiling of meters and connections, Administrative expenses increased by \$ 15,902, legal fees increased by \$ 16,606, and pension plan expenses increased by \$ 22,047. Decreases were noted in parts, supplies, and tools of \$11,433. Total capital outlay increased by \$2,085,892, and consists of the Glade Village water line replacement in the amount of \$366,098, the construction in progress on the new water plant in the amount of \$2,722,951, a roof on the clear well in the amount of \$4,995, and equipment in the amount of \$9,171. Details of the capital outlay items are provided in the Capital section of this report.

Depreciation expense, a non-cash outlay, decreased by \$2,711, to \$188,927.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

ANALYSIS OF BUDGET AND ACTUAL RESULTS

Governmental and Enterprise Funds

The Town budgets for the General Fund and the Water Fund. The General Fund is the operating fund and comprises all the transactions and activities of the Town, except for the water utility. The Water Fund, on the other hand, is supposed to operate as a self-sustaining business. For the fiscal year ended June 30, 2019, there was a budget amendment to the General Fund to account for the loan of \$1.9 million to the Water Fund to pay the Frederick County increase in capacity fee. There was no corresponding budget amendment in the Water Fund to account for the loan or the payment to the County. Town philosophy is that the budget, even though adopted by an ordinance, is a planning tool and not a restrictive document. In other words, if funds are budgeted there is no urgency to spend them within the fiscal year. Conversely, if a need arises and the plan is not in the budget to address it, it nevertheless is evaluated and addressed if it is needed to provide the best service and support of our citizens. Also, the budgeting process is approached very conservatively, i.e. including lower expectations for revenue to be received and estimating on the high side for expected expenses. This philosophy, however, may change, due to an almost completely new board of Commissioners. For these reasons, variances between the budget and actual in the Governmental and Enterprise Funds are usually explained using the above approach. Only explainable variances will be mentioned or discussed.

Regarding actual results of the General Fund and the Water Fund to the adopted budgets, the following variations are notable:

General Fund

- ❖ Personal property tax revenue received was more than expected by \$47,478 as the category recovered from last year's refunds due to Lonza. This category continues to be a difficult area to project as we wait for the assessments provided to the state through the personal property tax returns. Income taxes received were higher than anticipated by \$125,068 or 15.7%, continuing the positive signs that the economy is improving, and people are making money and paying taxes. This budget category is estimated by averaging the 3 previous years and typically is always underestimated. Planning and zoning revenue exceeded expectations by \$14,740, or 147.4%, as developments in process for approval pay their appropriate permitting and review fees. Timing continues to be the variable in estimating this and the Town continues its conservative approach. Highway user tax revenue received \$14,320 above budget, as the amounts evolve throughout the year as notified by the State Highway Administration. Program Open Space income was \$189,925 less than expected, because the HFP sports building has still, after 4 years, not been built or paid for, although the work has been awarded. Therefore, POS funds have not been requested for reimbursement. Tax Equity was exactly the amount the County told us it would be, \$898,337, an increase over last year by \$ 51,322, 6.1%. Walkersville has chosen tax equity rather than tax differential as the calculation for our reimbursement from the County for duplicate services provided. Interest income received was \$118,726 above the budgeted amount, as this is still a difficult category to estimate, with rates slightly above 2%. The Commissioners designated \$1,900,000 from savings to provide a loan to the Water Fund. If that is disregarded, then total revenues were over budget by \$132,735, a 3.7% variance.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management's Discussion and Analysis (Unaudited)

- ❖ Again ignoring the effect of the \$1,900,000 loan to the Water Fund on the budget, actual expenditures were under budget by \$610,694 or 16.9%. General government expenditures were under budget by \$14,836, and included negative variances in salaries (\$1,315), other operating expenditures (\$8,061), and planning and zoning (\$5,928). Negative variances indicate expenditures exceeded those projected in a category. Notable positive variances included trainings, meetings, and travel \$5,203, financial administration operating expenditures \$5,079, legal expenditures \$8,088, utilities \$2,407, and repairs and maintenance \$8,187. Total public safety overspent the estimated expenditures by (\$62,348), with (\$69,391) overspent in police and traffic control due to projecting expenditures for 5 Resident troopers, and \$7,043 available due to the change in Code Enforcement officers. Total public works expenditures were under budget by \$79,410, which includes positive variances in salaries of \$27,153, maintenance of \$33,385, truck and equipment of \$8,021, street lighting of \$10,017, safety of \$1,452, and uniforms/boots of \$2,617. The only negative variance was in parts, tools, and supplies (\$3,235). Waste collection and disposal expenditures were under budget by \$57,400. Recreation and culture expenditures were under budget by \$275,446, due to the Heritage Farm Park building being budgeted for \$266,584 and not yet coming into fruition. The building bid has been awarded, however, to date, no bills have been received, paid, or reimbursed. All other categories in recreation and culture were within \$4,000 positive or negative variances. Non-departmental expenditures are under budget by \$46,220, with most of the variance attributable to a savings in medical insurance in the amount of \$29,515. Positive variances were recognized in retirement and pension costs of \$3,002, payroll taxes of \$4,581, insurance of \$5,944, and security measures of \$5,065. Capital outlay expenditures were under by \$2,099,730, and includes the amended budget for the loan to the Water Fund in the amount of \$1,900,000. Excluding that item, the variance in capital outlay would be the difference between \$338,856 and actual expenditures of \$139,126, or \$199,730 and is mostly a result of many of the listed projects not being implemented. The Burgess and Commissioners and town staff continue to budget in an extremely conservative manner, giving priority to spending the funds entrusted to us in the most responsible processes, ensuring that our citizens receive the best services for their tax dollars.

Water Fund

- ❖ To realistically evaluate the Water Fund revenues (including operating and non-operating), you must first remove the \$209,952 budgeted to be used from savings and reserves. Without this, the budgeted current revenue becomes \$1,341,140. Comparing that to actual received of \$1,448,996, the Water Fund received \$107,856 more than expected, or 8.0%. Charges for service received \$4,925 more than expected, a .4% positive variance. The Town continues to attempt to increase revenue to the point of being able to support the debt of the upcoming construction of the water plant. Automatic 1% rate increases are supposed to be helping to generate more revenue, even as gallons used decreases and citizens continue to conserve water. Unfortunately, the automatic rate increases have not been implemented. Connection fees are being received and recognized on a pay as you go basis with the development Spring View Estates. The variance in budget to actual is \$76,800, and is not considered part of the operating budget. These revenues are to be used towards the expansion and construction of the plant. Wireless tower income (a non-operating revenue source) exceeded budget expectations by \$7,072, or 3.7%, as carriers continue to expand, replace, and stay up on the latest cellular technology. The Water Fund depends on this wireless revenue to stay viable. Interest income was received in the amount of \$23,537, and was over expectations by \$18,537.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

- ❖ Total operating expenses were overall in line with budget, with a slight overage of \$3,709. Salaries came in under budget by \$10,516, along with medical insurance by \$7,917, and payroll taxes by \$1,353, while the pension plan expense appears over budget by \$ 18,998 due to the various required adjustments required by GASB 68 deferred inflows and outflows, retirement expense, and pension liability. Many of the operating expenses were over budget, i.e. electricity by \$5,512, distribution maintenance by \$41,892, sewer treatment fees were over budget by \$7,311, legal fees by \$12,404, and administrative expenses by \$15,061, while chemicals were under by \$13,230, and other operating expenses were under budget by \$64,308. Miscellaneous expenses went unspent by \$7,019. Raises were capped this year at 4% on a vote by the Commissioners. The Commissioners continue to budget 160 hours of compensatory time for the maintenance and water operators who earn compensatory time for snow plowing and water main breaks.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town of Walkersville's total investment in capital assets, net of related debt, including construction in process, for its governmental and business type activities as of June 30, 2019, amounts to \$11,466,205 (net of accumulated depreciation) compared to \$10,863,090 at June 30, 2018, an increase of \$603,115. This investment in capital assets includes infrastructure donated by developers, land, farm land, buildings, furnishings, equipment and machinery, water treatment plant, distribution system, water towers, roads, stormwater structures, recreation and parks facilities, as well as construction in progress.

GASB 34 requires the Town to include certain infrastructure items on the financial statement reporting effective with the year beginning July 1, 2003. These financial statements include all known assets, including infrastructure assets and certain developer assets, which were constructed and donated to the Town as a requirement of their development site plans. For FY 2019, there were no contributions of infrastructure from developers.

GASB 34 also allows the Town to report depreciation expense on infrastructure assets or to adopt the modified approach, which allows depreciation expense to be ignored if expenditures that are necessary to maintain infrastructure assets to an objectively determined level of service are made. Consistent with what appears to be an overwhelming common practice/industry standard being adopted by governmental entities nationwide subject to GASB 34, the Town of Walkersville has adopted the reporting of depreciation expense.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
MD&A Management’s Discussion and Analysis (Unaudited)

This year’s capital additions included:

Purchased by Town:

Leak detector	\$ 4,617
Flow meter	4,554
Roof on clear well	4,995
Water treatment plant in progress	2,722,951
Glade Village water line replacement	366,098
Meyer snow plow	4,847
Heritage Farm Park building in progress	16,197
2018 Dodge Ram truck	44,804
Buyers 1400050SS salt spreader	5,000
Exmark walk-behind mower	8,902
Plans and engineering in process for Fountainrock Road	
Right turn in/right turn out modification	6,268
Walkersville Southern Railroad parking lot	11,368
Patch railroad crossing at Biggs Ford Road	7,934
Biggs Ford Road 2" mill and overlay	19,006
Devilbiss Bridge Road patch	<u>14,800</u>
 Total purchased by the Town	 <u><u>\$ 3,242,341</u></u>

The Town of Walkersville’s fiscal year 2020 capital budget plans for spending \$1,511,234 compared to FY 2019’s budget of \$2,797,508 for capital projects (both funds combined). Some of FY 2019’s projects were not implemented or completed, and thus reappeared in the FY 2020 budget. Paving and street maintenance is ongoing, with \$97,134 available for unexpected needs or savings. The FY 2020 capital budget includes the regular annual budgeting of equipment, major paving and overlay projects, and water line replacement in the amount of \$389,434 in the General Fund budget and \$908,800 in the Water Fund capital budget. The Town has finally broken ground on the new water plant and the work progresses as this report is written. More detailed information about the Town’s capital assets is presented in Notes 1 and 7 to the financial statements. Detailed information about the Town’s related water treatment plant debt is presented in Note 8 to the financial statements.

Long-Term Debt Activity

The Town of Walkersville has received approval from the State for financing \$8.775 million of the upcoming water plant construction. At June 30, 2019, \$2,039,123 has been drawn on the bonds.

Subsequent Items for Future Financial Statements

- ❖ The Town of Walkersville adopted its General Fund budget based on a 16.0¢ tax rate per \$100 of assessed value for FY 2020. Commissioners voted to keep the tax rate steady and hope for the best. The Constant Yield Rate was 15.81¢. The potential revenue with the 16¢ rate will generate \$994,468. Our tax rate continues to be a source of pride to the Burgess & Commissioners as one of the lowest tax rates in the State of Maryland for a town of our size.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

MD&A Management's Discussion and Analysis (Unaudited)

- ❖ The Town continues to utilize Program Open Space and is holding on to funding in the amount of \$189,925 for construction of the Heritage Farm Park athletic building. The building contract has been awarded in the amount of \$459,250, which is quite a difference between the original estimates for the cost and the bids received.
- ❖ The Town-operated Water Utility needs to raise its rates again in order to operate in the black and maintain the proprietary fund requirements, i.e. the utility needs to earn revenue to cover its costs. The interest that will be due on the loan for the new plant is a concern as to how it will be paid.
- ❖ The Town functioned for an entire year with 5 resident troopers. The FY 2020 budget for the 5 troopers is \$1,025,708, the most robust item in the General Fund budget. The opioid crisis, juvenile breaking and entering into unlocked cars, and speeding seem to be the most often expressed complaints. The installation is looking into changing monitoring companies for the surveillance cameras throughout the Town parks, shop, and town hall building. To date, the cameras have not functioned as hoped for the deterrence of vandals.
- ❖ Another notable event is the burying of the time capsule took place on August 14, 2019 with the capsule ending up in the flower bed in front of Town Hall. The marker is being ordered to designate the spot and the capsule will be opened 50 years from the anniversary date, in 2067.
- ❖ MS4 (Municipal Separate Storm Sewer System) is the Federal/State regulation that the Town is currently working towards compliance. Several staff members have been trained to operate within the adopted ordinance, to detect, inspect, address, and resolve illicit discharges into the storm system are being developed.
- ❖ The Town election held in September 2018 resulted in re-election of the Burgess and one Commissioner, along with a turnover on the board with 4 new Commissioners. As expected, new ideas and policies and agendas and priorities are forthcoming.
- ❖ We continue to look forward to the completion of the three new developments in process, construction of a new water plant by March 2020, and hiring energetic new employees to replace those anticipating retirement.

REQUESTS FOR INFORMATION

This Management Discussion and Analysis document is designed to provide our citizens, taxpayers, water customers, and interested persons with a general overview of the Town of Walkersville's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Manager
Town of Walkersville
PO Box 249
Walkersville, MD 21793

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD**Statement of Net Position****June 30, 2019**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash	\$ 432,290	\$ 458,341	\$ 890,631
Investments - Maryland Local Government			
Investment Pool	7,857,933	725,884	8,583,817
Certificates of deposit, including accrued interest	850,629	-	850,629
Receivables			
Taxes	1,010	-	1,010
Franchise fees	21,890	-	21,890
Other	1,738	-	1,738
Water service charges, net of allowance for uncollectibles of \$775	-	99,360	99,360
Due from other governmental agencies	115,738	-	115,738
Accrued interest receivable (payable) on interfund loan	11,875	(11,875)	-
Inventory, at cost, net of allowance	11,328	12,845	24,173
Prepaid expenses	10,101	6,729	16,830
Internal balances	(319,167)	319,167	-
Total Current Assets	8,995,365	1,610,451	10,605,816
Noncurrent Assets			
Long-term interfund loan	1,900,000	(1,900,000)	-
Capital assets not being depreciated	2,138,928	3,506,550	5,645,478
Capital assets net of accumulated depreciation	4,381,734	3,478,116	7,859,850
Total Noncurrent Assets	8,420,662	5,084,666	13,505,328
Total Assets	17,416,027	6,695,117	24,111,144
DEFERRED OUTFLOWS OF RESOURCES			
	136,580	41,509	178,089
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 17,552,607	\$ 6,736,626	\$ 24,289,233
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 373,858	\$ 611,419	\$ 985,277
Accrued interest payable	-	4,665	4,665
Accrued salaries and withholdings	69,183	16,023	85,206
Unearned revenue	8,800	47,129	55,929
Deposits	63,365	25,298	88,663
Total Current Liabilities	515,206	704,534	1,219,740
Noncurrent Liabilities			
Net pension liability	540,741	164,342	705,083
Bonds payable	-	2,039,123	2,039,123
Total Noncurrent Liabilities	540,741	2,203,465	2,744,206
Total Liabilities	1,055,947	2,907,999	3,963,946
DEFERRED INFLOWS OF RESOURCES			
	82,500	25,073	107,573
Net Position			
Net investment in capital assets	8,420,662	4,945,543	13,366,205
Unrestricted	7,993,498	(1,141,989)	6,851,509
Total Net Position	16,414,160	3,803,554	20,217,714
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 17,552,607	\$ 6,736,626	\$ 24,289,233

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Activities
Year Ended June 30, 2019

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General government	\$ 577,586	\$ 30,025	\$ 1,030	\$ -	\$ (546,531)	\$ -	\$ (546,531)
Public safety	1,078,835	-	38,345	-	(1,040,490)	-	(1,040,490)
Public works	902,753	737	-	-	(902,016)	-	(902,016)
Waste collection and disposal	224,500	7,032	-	-	(217,468)	-	(217,468)
Recreation and culture	191,973	-	4,776	-	(187,197)	-	(187,197)
Non-departmental	349,680	-	-	-	(349,680)	-	(349,680)
Total Governmental Activities	3,325,327	37,794	44,151	-	(3,243,382)	-	(3,243,382)
Business-Type Activities							
Water	3,177,772	1,425,459	-	-	-	(1,752,313)	(1,752,313)
TOTAL GOVERNMENT	\$ 6,503,099	\$ 1,463,253	\$ 44,151	\$ -	(3,243,382)	(1,752,313)	(4,995,695)
General Revenues							
Taxes							
Property taxes, levied for general purposes					1,244,637	-	1,244,637
Income taxes					921,708	-	921,708
Highway taxes					213,306	-	213,306
Other local taxes					949,081	-	949,081
Franchise fees					79,395	-	79,395
Investment earnings					198,726	23,537	222,263
Miscellaneous					59,858	-	59,858
Total General Revenues					3,666,711	23,537	3,690,248
Change in net position					423,329	(1,728,776)	(1,305,447)
NET POSITION - BEGINNING					15,990,831	5,532,330	21,523,161
NET POSITION - ENDING					\$ 16,414,160	\$ 3,803,554	\$ 20,217,714

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Balance Sheet – Governmental Fund
June 30, 2019

	General Fund
ASSETS	
Cash	\$ 432,290
Investments - Maryland Local Government	
Investment Pool	7,857,933
Certificates of deposit, including accrued interest	850,629
Receivables	
Taxes	1,010
Franchise fees	21,890
Other	1,738
Due from other governmental agencies	115,738
Accrued interest receivable	11,875
Prepaid expenditures	10,101
Inventory, at cost	11,328
Due from other funds - long-term	<u>1,900,000</u>
TOTAL ASSETS	<u>\$ 11,214,532</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 373,858
Accrued salaries and withholdings	69,183
Due to other funds	319,167
Unearned revenue	8,800
Deposits	<u>63,365</u>
Total Liabilities	<u>834,373</u>
Fund Balance	
Nonspendable	1,921,429
Assigned	467,352
Unassigned	<u>7,991,378</u>
Total Fund Balance	<u>10,380,159</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 11,214,532</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Reconciliation of Fund Balance to the Statement of Net Position of
Governmental Activities
June 30, 2019

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 10,380,159

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of:

Property, plant and equipment	15,587,553	
Accumulated depreciation	<u>(9,066,891)</u>	6,520,662

The net pension liability associated with the Town's proportionate share of the Maryland State Retirement and Pension System is not payable with current financial resources and is not reported in the governmental funds.

The activity associated with the Town's share of the net pension liability consists of:

Net pension liability	(540,741)	
Deferred outflows of resources	136,580	
Deferred inflows of resources	<u>(82,500)</u>	<u>(486,661)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 16,414,160

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenditures, and Change in Fund Balance -
Governmental Fund
Year Ended June 30, 2019

	General Fund
REVENUES	
Local property taxes and interest	\$ 1,244,637
Licenses and permits	30,025
Grants and shared taxes	2,123,470
Other revenue	<u>350,528</u>
Total Revenues	<u>3,748,660</u>
EXPENDITURES	
General government	522,689
Public safety	1,076,608
Public works	592,540
Waste collection and disposal	224,500
Recreation and culture	148,138
Non-departmental	301,630
Capital outlay	<u>139,126</u>
Total Expenditures	<u>3,005,231</u>
Change in Fund Balance	743,429
TOTAL FUND BALANCE - BEGINNING OF YEAR	<u>9,636,730</u>
TOTAL FUND BALANCE - END OF YEAR	<u><u>\$ 10,380,159</u></u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund
Balances
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2019

CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ 743,429
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	139,126
Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(411,173)
In the government-wide financial statements, activity related to the Town's proportionate share of the Maryland State Retirement and Pension System is recognized when the costs are incurred, adjusted for the actuarial measurement date of the plan. In the governmental funds, expenditures are recognized when current financial resources are used. This year, actual costs of the plan were more than current resources used.	<u>(48,053)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 423,329</u></u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Net Position – Proprietary Fund
June 30, 2019

	<u>Water Fund</u>
ASSETS	
Current Assets	
Cash	\$ 458,341
Investments - Maryland Local Government	
Investment Pool	725,884
Receivables	
Water service charges (net of allowance for uncollectibles of \$775)	99,360
Due from other funds	319,167
Prepaid expenses	6,729
Inventory, at cost, net of allowance	<u>12,845</u>
Total Current Assets	<u>1,622,326</u>
Noncurrent Assets	
Capital assets not being depreciated	3,506,550
Capital assets net of accumulated depreciation	<u>3,478,116</u>
Total Noncurrent Assets	<u>6,984,666</u>
Total Assets	8,606,992
DEFERRED OUTFLOWS OF RESOURCES	<u>41,509</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,648,501</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 611,419
Accrued interest payable	16,540
Unearned revenues	47,129
Accrued salaries and withholdings	16,023
Deposits	<u>25,298</u>
Total Current Liabilities	<u>716,409</u>
Noncurrent Liabilities	
Bonds payable	2,039,123
Due to other funds	1,900,000
Net pension liability	<u>164,342</u>
Total Noncurrent Liabilities	<u>4,103,465</u>
Total Liabilities	<u>4,819,874</u>
DEFERRED INFLOWS OF RESOURCES	<u>25,073</u>
Net Position	
Invested in capital assets	4,945,543
Unrestricted (deficit)	<u>(1,141,989)</u>
Total Net Position	<u>3,803,554</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 8,648,501</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenses and Change in Net Position – Proprietary Fund
Business Type Activities – Enterprise Fund
Year Ended June 30, 2019

	Water Fund
OPERATING REVENUES	
Charges for services	\$ 1,129,065
Meter service charge	1,760
Connection fees	76,800
Penalties and interest	17,712
Other income	50
	<hr/>
Total Operating Revenues	1,225,387
	<hr/>
OPERATING EXPENSES	
Depreciation	188,927
Salaries	221,384
Electricity	75,512
Distribution maintenance	181,892
Parts, supplies, and tools	2,465
Chemicals	171,770
Sewer treatment fees	127,311
Other operating expenses	15,292
Audit	9,500
Legal expense	17,404
Administrative expenses	36,461
Pension plan	37,818
Workmen's compensation insurance	5,871
Payroll taxes	16,387
Property insurance	13,495
Medical insurance	54,323
Safety	865
Miscellaneous	981
	<hr/>
Total Operating Expenses	1,177,658
	<hr/>
Income From Operations	47,729
	<hr/>
NON-OPERATING REVENUES (EXPENSES)	
Wireless tower income	200,072
Interest income	23,537
Interest expense	(17,046)
Sewer capacity fees	(1,983,068)
	<hr/>
Total Non-Operating Revenues (Expenses)	(1,776,505)
	<hr/>
Change in Net Position	(1,728,776)
	<hr/>
NET POSITION - BEGINNING OF YEAR	5,532,330
	<hr/>
NET POSITION - END OF YEAR	<u>\$ 3,803,554</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2019

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,163,631
Cash payments to suppliers for goods and services	(211,272)
Cash payments to employees for services	<u>(198,372)</u>
Net Cash Provided By Operating Activities	<u>753,987</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
(Increase) in due from other funds	(318,204)
Wireless tower income	200,072
Payment for noncapital contribution	<u>(1,983,068)</u>
Net Cash (Used In) Non-Capital Financing Activities	<u>(2,101,200)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(3,103,215)
Proceeds from interfund loan	1,900,000
Proceeds from bonds payable	<u>2,039,123</u>
Net Cash Provided By Capital and Related Financing Activities	<u>835,908</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Interest on cash and investments	<u>23,537</u>
Net (Decrease) In Cash and Cash Equivalents	(487,768)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,671,993</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,184,225</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2019

	Water Fund
RECONCILIATION OF INCOME FROM OPERATIONS	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Income from operations	\$ 47,729
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	188,927
(Increase) in receivables	(8,397)
(Increase) in prepaid expenses	(3,410)
Decrease in inventory	11,291
Increase in accounts payable	548,194
(Decrease) in deferred revenue	(57,909)
Increase in accrued salaries	3,176
Increase in deposits	4,550
Change in net pension liability	19,836
	<u>19,836</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 753,987
<hr/>	
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS	
PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF	
NET POSITION	
Cash	\$ 458,341
Investments - Maryland Local Government	
Investment Pool	725,884
	<u>725,884</u>
	<u>\$ 1,184,225</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The primary government is the Burgess and Commissioners of Walkersville, MD, referred to herein as the Town or the Burgess and Commissioners.

The accompanying financial statements are presented as of June 30, 2019 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (the GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

Reporting Entity

The accompanying financial statements comply with the provisions of the GASB in that the financial statements include all organizations, activities, functions and component units for which the Town (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the Town's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the Town.

Based on the foregoing, the Town's financial reporting entity includes all funds, and boards and commissions that are part of the primary government. There are no component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balances

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable

This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts and inventories.

Restricted

This classification includes amounts where the constraints placed on the use of resources are externally imposed by creditors, grantors, contributors or imposed by law through constitutional provisions or enabling legislation.

Committed

This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Burgess and Commissioners of Walkersville, MD. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned

For the General Fund, this classification includes amounts intended to be used for specific purposes that do not meet the criteria to be classified as Restricted or Committed. The assignment of fund balance cannot result in a negative unassigned fund balance. The Burgess and Commissioners of Walkersville, MD delegates to the Town Manager the authority to assign fund balance.

Unassigned

This classification represents the portion of spendable fund balance that has not been categorized as Restricted, Committed or Assigned. A negative Unassigned fund balance may occur in any fund when there is an over expenditure of Restricted or Committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

When fund balance resources are available for a specific purpose in multiple classifications, the Town's policy is to use restricted resources first and then apply unrestricted resources in the following order: Committed, Assigned, and Unassigned. Committed or Assigned resources would only be used upon specific authorization by the Burgess and Commissioners (and their designee), respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

Taxpayer-assessed income is considered “measurable” when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The Water Fund accounts for the activity of the Town’s water system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government’s water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise general revenues include all taxes.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The Water Fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Burgess and Commissioners to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Real Estate and Personal Property Taxes

The Town's tax levy date for real estate taxes is July 1 of each year. These taxes are due July 1 with interest accruing beginning October 1. If tax bills are not paid by the last day of February, the County Treasurer begins the process to sell the delinquent taxpayer's property.

The tax levy date for personal property taxes is July 1.

Inventories and Prepaid Items

Inventories of materials and supplies are determined by physical count and are stated at the lower of cost, on the first-in first-out (FIFO) basis, or market.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$2,500 and useful life of one year or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. With the adoption of GASB 89, interest costs related to construction are expensed as incurred, effective July 1, 2018.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed and placed in service. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2019.

Property, plant, and equipment of the Town is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Furnishings	5-40
Equipment	3-20
Improvements	5-40
Water Treatment Plant	5-50
Distribution System	3-50
Water Systems	75
Water Towers	5-40
Filter Rehabilitation Project	50
Urban Denitrification System	50
Infrastructure	15-50

Statement of Cash Flows

For the purposes of the statement of cash flows, the Water Fund has defined cash equivalents as all highly liquid deposits and other investment instruments that have an original maturity of three months or less.

Accounts Receivable

The Town provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Trade accounts receivable are recorded net of an allowance for expected losses. Receivables are generally due thirty (30) days after billed. The Town maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, projection of trends, and other information. Trade receivables are charged off against the allowance when, in the judgment of management, it is unlikely they will be collected.

Concentrations of Credit Risk

The Town's receivables consist of amounts due for property taxes, water service, and taxes collected by Frederick County and the State of Maryland. The Town has the legal right to place a lien on properties for unpaid taxes or water service fees.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are stated at fair value based on quoted market values. Under the terms of repurchase agreements, the excess cash from checking accounts is invested in short-term investments. Short-term investments in U.S. Treasury and agency obligations that have a remaining maturity at time of purchase of one year or less, provided that the fair value of those investments is not significantly affected by impairment, are reported at amortized cost, which approximates market value.

Taxes and Town Services

The Town and its separate funds do not pay Federal, State, or local taxes except social security taxes. Except for certain limited reimbursements of administrative expenses and employee benefits made from other funds, the General Fund is not reimbursed by the other funds for general staff services.

Rate of Town Taxes

Real estate tax	\$.16 per \$100 of assessable base
Personal property tax	\$.44 per \$100 of assessable base

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period, and so will not be recognized as an outflow of resources (expense) until then. The Town has one item that qualifies for reporting in this category, which is related to the Town's pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one item that qualifies for reporting in this category, which is related to the Town's pension plan.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

In the government-wide financial statements, net position is classified in the following three categories:

Net Investment in Capital Assets

Consists of capital assets grouped into one component of net position. Accumulated depreciation and the outstanding balances of debt, accounts payable, and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce the category. Net investment in capital assets as of June 30, 2019 consists of the following:

	Government Wide Activities	
	Governmental Activities	Business Type Activities Water Fund
Capital Assets	\$ 15,587,553	\$ 11,321,185
Accumulated depreciation	(9,066,891)	(4,336,519)
Bonds payable	-	(2,039,123)
Net Investment in Capital Assets	<u>\$ 6,520,662</u>	<u>\$ 4,945,543</u>

Restricted

Consists of components of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, regulations of other governments, law through constitutional provisions or enabling legislation. As of June 30, 2019, the Town had no restrictions of net position.

Unrestricted

Consist of all other components of net position that do not meet the definition of “net investment in capital assets” or “restricted”.

Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted sources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to use restricted resources first, then unrestricted resources as they are needed.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

General governmental revenues and expenditures accounted for in the General Fund are controlled by a formal budgetary accounting system in accordance with legal requirements that govern the Town's operations. Except that a transfer from unappropriated surplus is sometimes budgeted as a revenue item. Annual budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at the fiscal year end.

There was no approved Capital Projects Fund budget, as those expenditures are included in the General Fund budget.

The proprietary funds budgets are prepared using a budgetary basis that approximates the cash basis of accounting. Budgetary basis reflects principal payments on debt and capital equipment purchases as expenses and does not reflect depreciation and amortization expense.

In February of each year, the Burgess and the Town Manager get together informally and discuss the budget. By the end of April, the Town Manager proposes a budget to the Burgess and Commissioners, who review and finalize a proposed budget and hold a public hearing to present the budget. During the month of May, concerns proposed by citizens are discussed and the Burgess and Commissioners approve the budget by the end of May.

The Town's budget is comprised of the current operating budget. The current operating budget is based upon estimated revenues and expenditures of operations for the ensuing fiscal year. The Burgess and Commissioner review the operating budget in regular public meetings and in a public hearing.

The Town Manager reviews the budget on a monthly basis. All expenditures are approved by the Burgess and Commissioners. If the Burgess and Commissioners approve expenditures not previously budgeted the Town Manager amends the budget to better reflect comparison to actual results.

NOTE 3 CASH AND CERTIFICATES OF DEPOSIT

The Town's deposit policy specifies that all deposits must be entirely covered by federal depository insurance, deposit surety bond, or by collateral in the form of pledged securities in accordance with State statute. In order to anticipate market changes and provide a level of security all deposits, certificates of deposit and repurchase agreements shall be secured by pledged collateral with a market value of 102% of principal plus accrued interest.

At June 30, 2019, the carrying amount of the Town's deposits was \$1,741,260 including interest receivable. The related bank balance totaled \$1,819,812.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 3 CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

Following is a schedule of the Town's deposits by financial institution at June 30, 2019:

Woodsboro Bank	\$ 850,000
PNC Bank	<u>969,812</u>
	<u>\$ 1,819,812</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk, however, follows State law. As of June 30, 2019 \$1,209,542 of the Town's deposits were exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank not in the Town's name	<u>\$ 1,209,542</u>
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NOTE 4 INVESTMENTS

As of June 30, 2019 the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Maryland Local Government Investment Pool	See description of MLGIP	\$ 8,583,817

The Burgess and Commissioners have agreed to participate in the State of Maryland Local Government Pool (MLGIP) established by Article 95 Section 22G of the Annotated Code of Maryland. The pool is administered by the State Treasurer who invests the funds in accordance with the provisions set forth in Section 6-222 of the State Finance and Pronouncement Article of the Annotated Code of Maryland. MLGIP carries a Standard & Poors rating of AAA.

Significant policies that relate to MLGIP are as follows:

- MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method.
- The maximum allowable maturity of any individual security is 13 months.
- All securities in the MLGIP are valued daily on an amortized cost basis. The MLGIP is valued weekly using current market rates for the individual securities held in the pool.
- The yield of the MLGIP is calculated daily and is based on an amortized cost basis.
- Net investment income is accrued daily.
- All participants in the MLGIP receive individual statements for each of their accounts. Statements can be received daily, monthly, quarterly, or upon request.
- Participation in the MLGIP is strictly voluntary.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 4 INVESTMENTS (CONTINUED)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Town's investment policy specifies that the Town of Walkersville, MD will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution. The Town's investment policy also states that the investment portfolio will remain sufficiently liquid to enable the Town of Walkersville to meet all operating requirements which might be reasonably anticipated. To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than one year from the date of purchase. However, the Town may invest in repurchase agreements using longer-dated investments not to exceed three years to maturity. Reserve funds may be invested in securities exceeding three years if the maturities of such instruments are made to coincide as nearly as practicable with the expected use of the funds.

Credit Risk

Investments of the Town, including the MLGIP, are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements. In addition, recent economic uncertainty and market events have led to volatility in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the Town's investments.

NOTE 5 TAX ABATEMENT

The Town adopted a resolution in September 1978, under the authority of Article 23A, Section 19(n), of the Annotated Code of Maryland, whereby property owners within the Town's annexed area can receive tax abatements, provided certain stipulations are met. Under the terms of the resolution, the property must remain zoned for agricultural use only and the residents must forgo receiving any municipal services or benefits. As long as these conditions are met, the resident pays a nominal property tax of \$1 per year. Total property taxes abated under this agreement were \$7,303 for the year ended June 30, 2019.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 6 INVENTORY

Inventory consists of the following:

	General Fund
Inventory, at cost	\$ 11,328
	Enterprise Fund
Inventory, at cost	\$ 13,333
Allowance for obsolete inventory	(488)
	\$ 12,845

NOTE 7 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 2,047,319	\$ -	\$ -	\$ 2,047,319
Construction in progress	69,144	22,465	-	91,609
Total Capital Assets Not Being Depreciated	2,116,463	22,465	-	2,138,928
Capital Assets Being Depreciated				
Improvements	1,671,993	-	-	1,671,993
Infrastructure	8,833,801	53,108	-	8,886,909
Building and furnishings	1,859,711	-	-	1,859,711
Equipment	969,205	63,553	(2,746)	1,030,012
Total Capital Assets Being Depreciated	13,334,710	116,661	(2,746)	13,448,625
Total Capital Assets	15,451,173	139,126	(2,746)	15,587,553
Accumulated Depreciation				
Improvements	(978,313)	(46,343)		(1,024,656)
Infrastructure	(5,745,984)	(250,462)		(5,996,445)
Building and furnishings	(1,209,242)	(44,743)		(1,253,986)
Equipment	(724,923)	(69,625)	2,746	(791,804)
Total Accumulated Depreciation	(8,658,462)	(411,173)	2,746	(9,066,891)
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 6,792,711	\$ (272,047)	\$ -	\$ 6,520,662

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 7 CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 7,507	\$ -	\$ -	\$ 7,507
Construction in progress	409,994	3,089,049	-	3,499,043
Total Capital Assets Not Being Depreciated	<u>417,501</u>	<u>3,089,049</u>	<u>-</u>	<u>3,506,550</u>
Capital Assets Being Depreciated				
Equipment	607,929	9,171	(1,232)	615,868
Improvements	15,358	-	-	15,358
Building and furnishings	40,743	4,995	-	45,738
Water treatment plant	1,644,575	-	-	1,644,575
Distribution system	3,485,421	-	-	3,485,421
Water systems	236,026	-	-	236,026
Water towers	1,618,317	-	-	1,618,317
Filter rehabilitation project	144,394	-	-	144,394
Urban detritification project	8,938	-	-	8,938
Total Capital Assets Being Depreciated	<u>7,801,701</u>	<u>14,166</u>	<u>(1,232)</u>	<u>7,814,635</u>
Total Capital Assets	<u>8,219,202</u>	<u>3,103,215</u>	<u>(1,232)</u>	<u>11,321,185</u>
Accumulated Depreciation				
Equipment	(406,958)	(47,978)	1,232	(453,704)
Improvements	(15,047)	(124)	-	(15,171)
Building and furnishings	(24,297)	(1,850)	-	(26,147)
Water treatment plant	(975,413)	(35,341)	-	(1,010,754)
Distribution system	(1,203,550)	(71,748)	-	(1,275,298)
Water systems	(152,706)	(2,347)	-	(155,053)
Water towers	(1,304,109)	(26,472)	-	(1,330,581)
Filter rehabilitation project	(62,812)	(2,888)	-	(65,700)
Urban detritification project	(3,932)	(179)	-	(4,111)
Total Accumulated Depreciation	<u>(4,148,824)</u>	<u>(188,927)</u>	<u>1,232</u>	<u>(4,336,519)</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 4,070,378</u>	<u>\$ 2,914,288</u>	<u>\$ -</u>	<u>\$ 6,984,666</u>

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

Governmental Activities

General government	\$ 54,898
Public safety	2,227
Public works	310,213
Recreation and culture	43,835
	<u>\$ 411,173</u>

Business-Type Activities

Water	<u>\$ 188,927</u>
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BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 8 BONDS PAYABLE

In October 2018, the Town borrowed \$8,771,545 from the Maryland Department of the Environment (MDE), via the issuance of two bonds. The Burgess and Commissioners of Walkersville, Maryland Drinking Water Bond, Series 2018A was issued in the amount of \$7,271,545, and the Burgess and Commissioners of Walkersville, Maryland Drinking Water Bond, Series 2018B was issued in the amount of \$1,500,000. The purpose of the bonds is to finance the construction of a new water treatment plant for the Town. Terms of the Series 2018A bond call for annual principal payments due February 1 each year, beginning in 2020. The bond has an interest rate of 0.80% per annum and interest is due semiannually on the first day of February and August, commencing February 1, 2019, with final payment due February 1, 2050. The Series 2018B bond is payable on demand at any time prior to October 24, 2028, together with interest at a rate of 3.56% per annum. If the bond is not called prior to October 24, 2028, and provided the Town meets certain conditions, it shall be deemed to be forgiven, with principal and accrued interest cancelled. The bonds are secured by the full faith and credit and unlimited taxing power of the Town. The bonds are subject to mandatory repayment and may be prepaid by the Town in whole or in part, only at such times and in such amounts, and upon the payment by the Town of such prepayment premium or penalty, as the Director of the Maryland Water Quality Financing Administration (MWQFA) may specify and approve. The bonds also contain a provision that in the event of default for nonpayment of principal and interest, the full amount of the bonds shall be immediately due and payable, and the MWQFA may take any necessary legal action to collect amounts due. At June 30, 2019, the full amounts of the bonds have not been utilized.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Bonds payable - MDE	\$ -	\$ 2,039,123	\$ -	\$ 2,039,123	\$ -

Required principal payments on the full amount of the Series 2018A bond in future years are as follows:

Year Ending June 30,	Principal	Interest
2020	\$ -	\$ 26,346
2021	215,425	59,576
2022	217,148	56,448
2023	218,885	54,712
2024	220,636	52,960
2025-2029	1,129,942	238,042
2030-2034	1,175,868	192,114
2035-2039	1,223,663	144,324
2040-2044	1,273,397	94,584
2045-2049	1,325,155	42,828
2050	271,426	2,172
	<u>\$ 7,271,545</u>	<u>\$ 964,106</u>

As of June 30, 2019, the Town has not been notified that the Series 2018B bond will be called; as such, it is not included in the above repayment schedule.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 9 GOVERNMENTAL FUND BALANCES

The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2019 is as follows:

FUND BALANCES	
Nonspendable	
Inventory	\$ 11,328
Prepaid expenditures	10,101
Due from other funds - long-term	1,900,000
	<u>1,921,429</u>
Assigned for capital projects	
HFP building	27,608
Paving	131,500
Park projects	308,244
	<u>467,352</u>
Unassigned	<u>7,991,378</u>
	<u>\$ 10,380,159</u>

NOTE 10 RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions

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 Maryland State Retirement and Pension System (MSRPS) and additions to/deductions from MSRPS's fiduciary net position have been determined on the same basis as they are reported by MSRPS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Pension Plans

Plan Description

The Town participates in the Teachers and Employees Reformed Contributory Pension Benefit (RCPB) and the Teachers and Employees Alternate Contributory Pension System (ACPS), which are statewide agent cost-sharing multiple-employer public employee retirement systems administered by the Maryland State Retirement and Pension Systems in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Under RCPB, membership is automatic for employees who work at least 500 hours in the fiscal year. Under ACPS, membership is automatic for employees who were active as of July 1, 2006 – June 30, 2011. As of June 30, 2011, ACPS was closed to new members.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 10 RETIREMENT PLAN (CONTINUED)

Benefits Provided

A member of the RCPB may retire with full benefits after attaining the age of 65 with 10 years of eligibility service, or at the time in which their age plus eligibility service years equals 90. The annual retirement allowance is equal to 1.5% of a member's average final compensation (i.e., average of the member's five highest consecutive years of annual earnings) multiplied by the number of years of creditable service. A member may retire with reduced benefits after attaining age 60 and 15 years of service. The RCPB also provides death and disability benefits.

A member of the ACPS may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. Accrued, unused sick leave is counted as years of service for retirement purposes. On retirement from service, a member shall receive an annual service retirement allowance based on the member's average final compensation (i.e., average annual earnable compensation during any three consecutive years that provide the highest average earnable compensation) and years of creditable service. A member may retire with reduced benefits after attaining age 55 and completing 15 years of eligibility service. The ACPB also provides death and disability benefits.

Contributions

Both RCPB and ACPS participants are required to contribute 7% of their annual compensation; however, their retirement benefits are subject to limits on their annual cost of living adjustment. The Town is required to contribute the remaining amounts necessary to pay benefits when due. During the year ended June 30, 2019, the Town paid contributions totaling \$74,759.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Town reported a liability for its proportionate share of the net pension liability. The amount recognized by the Town as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Town is as follows:

	Employees' Retirement and Pension System
Town's proportionate share of net pension liability	\$ 705,083
State's proportionate share of net pension liability associated with the Town	<u>-</u>
Net Pension Liability	<u>\$ 705,083</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 10 RETIREMENT PLAN (CONTINUED)

The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan, actuarially determined. At June 30, 2018, the Town's proportion was 0.0033605% for the System.

For the year ended June 30, 2019, the Town recognized pension expense of \$57,334 related to governmental activities and \$17,425 related to business-type activities. As of June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 4,280	\$ -
Net difference between projected and actual investment earnings	99,050	88,961
Difference between actual and expected experience	-	18,612
Town contributions subsequent to the measurement date	<u>74,759</u>	<u>-</u>
	<u>\$ 178,089</u>	<u>\$ 107,573</u>

Town contributions subsequent to the measurement date totaling \$74,759 are reported as deferred outflows of resources related to pensions and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ 11
2021	\$ 11
2022	\$ 11
2023	\$ 11
2024	\$ (4,287)

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 10 RETIREMENT PLAN (CONTINUED)

Actuarial Methods and Assumptions

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.60% for general and 3.10% for wages. The discount rate and long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.45%. Mortality rates were based on the RP-2014 Mortality Tables with projected generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.

Investments

The long-term expected rate of return on pension plan investments was determined using a 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 weighting 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 Town after considering input from the System’s investment consultant(s) and actuary(ies). For each major asset class that is included in the System’s target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public equity	37%	5.80%
Rate sensitive	19%	1.10%
Credit opportunity	9%	3.60%
Absolute return	8%	3.20%
Private equity	13%	6.70%
Real assets	14%	4.80%
Total	100%	

Discount Rate

A single discount rate of 7.45% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.45%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits 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 WALKERSVILLE, MD
Notes to Financial Statements

NOTE 10 RETIREMENT PLAN (CONTINUED)

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.45%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease to 6.45%	Current Rate (7.45%)	1% Increase to 8.45%
Town's proportionate share of the net pension liability	\$ 1,015,567	\$ 705,083	\$ 447,410

Additional Financial and Actuarial Information

Additional financial information supporting the preparation of the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer (including the disclosure of the net pension liability and the unmodified audit opinion on the financial statements) is located in the System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. This can be found at www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2018.pdf.

NOTE 11 COMPENSATED ABSENCES

Full-time permanent employees are granted vacation benefits to specified maximum amounts depending on tenure with the Town. Upon resignation from Town employment, an employee may take the unused portion of the vacation leave or request payment in full for all unused vacation leave. Sick leave accrues to full-time permanent employees with no maximum. Upon resignation from Town employment, the employee is not paid for the accumulated sick leave.

The estimated current portion of the liability for vested vacation leave benefits attributed to the Town's governmental funds is recorded as an expenditure and liability in the respective funds. The amount attributable to the proprietary fund is charged to expense and a corresponding liability.

NOTE 12 DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by an insurance company. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 13 AGREEMENTS WITH DEVELOPERS

The Burgess and Commissioners entered into agreements with several real estate developers, under which the Town is the beneficiary of certain letters of credit and secured obligations of the developers. The letters secure the performance of the developers with respect to the purchase of water taps, installation of curbs, water lines, paving, etc. in new developments within the Town.

NOTE 14 RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has joined the Local Government Insurance Trust (LGIT), a public entity risk pool currently operating as a common risk management and insurance program for certain State of Maryland local governments. The Town has all of its insurance coverage, except for employee health care and workers' compensation, with LGIT.

The Town carries employee health care coverage with a private insurer. Workers' compensation is through Chesapeake Employers Insurance (previously known as the Injured Workers Insurance Fund).

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 15 CONDUIT DEBT OBLIGATIONS

The Town has issued Economic Development Revenue Bonds to provide assistance to the Walkersville Volunteer Rescue Company No. 24 (Company) for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying financing agreement. Upon repayment of the bonds, ownership of the acquired facilities transfers to the Company served by the bond issuance. Neither the Burgess and Commissioners of Walkersville, MD, nor any public body thereof is obligated in any manner for repayment of the bonds. In accordance with the Governmental Accounting Standards Board, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2019 the Economic Development Revenue Bonds outstanding had an aggregate principal amount payable of \$1,263,974.

NOTE 16 MAINTENANCE AGREEMENTS

The Town entered into a contract for the maintenance of the Crum Road water tower effective September 1, 2004. The contract requires an annual payment of \$34,118 for the first three years, a base annual payment of \$11,026 for the next three years, and beginning in 2010 and each third year thereafter, the fee will be adjusted to reflect the current cost of service, never exceeding a 5% increase or decrease. The contract is cancelable at any time. Total expense under this contract for the year ended June 30, 2019 amounted to \$15,080.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 16 MAINTENANCE AGREEMENTS (CONTINUED)

On July 12, 2006 the Town entered into an additional contract with the same vendor for the maintenance of the Heritage water tower. This contract requires annual payments of \$46,310 for the first three years, a base annual payment of \$15,242 for the next three years, and beginning in 2012 and each third year thereafter, the fee will be adjusted to reflect the current cost of service, never exceeding a 5% increase or decrease. The contract is cancelable at any time. Total expense under this contract for the year ended June 30, 2019 amounted to \$20,845.

On September 5, 2007 the Town entered into a contract with the same vendor of the two maintenance agreements described above for the maintenance of the Discovery water tower. This contract will require annual payments of \$42,211 for the first three years, a base annual payment of \$12,045 for the next three years, and beginning in 2013 and each third year thereafter, the fee will be adjusted to reflect the current cost of service, never exceeding a 5% increase or decrease. This contract is cancelable at any time. Total expense under this contract for the year ended June 30, 2019 amounted to \$14,841.

NOTE 17 INTERFUND RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as “internal balances” or “due to/from other funds” and are the result of lending/borrowing arrangements outstanding at the end of the fiscal year. The current portion of interfund activity is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	General	\$ 319,167

In addition to the above interfund transactions, during the year ended June 30, 2019, the General Fund loaned the Water Fund \$1,900,000 to pay sewer capacity allocation fees generated by the new water treatment plant. The loan is due in full in March 2049. Interest is charged on the outstanding principal balance until the first anniversary date of the promissory note at a fixed rate equal to 2.5% per annum. Commencing on the note anniversary date (March 27, 2020) and each anniversary date thereafter, the interest rate will be adjusted to the rate that is set for the calendar month immediately preceding the Note Anniversary Date that could be earned by investments from the General Fund in the Maryland Local Government Investment Pool (MLGIP), rounded up to the nearest ¼ of a percent. No principal payments are due prior to the Note Anniversary Date. Prior to the first Note Anniversary Date, interest-only payments are due in semi-annual installments on September 28, 2019 and March 28, 2020. Accordingly, the full balance is reported as a long-term interfund loan on the statement of net position.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Interfund loan	<u>\$ -</u>	<u>\$ 1,900,000</u>	<u>\$ -</u>	<u>\$ 1,900,000</u>	<u>\$ -</u>

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Notes to Financial Statements

NOTE 17 INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

After the first Note anniversary date, two equal semi-annual installment payments of principal and interest are due over a 30-year period, as follows:

Year Ending June 30,	Principal	Interest
2020	\$ -	\$ 47,500
2021	45,285	47,219
2022	46,424	46,080
2023	47,592	44,912
2024	48,789	43,715
2025-2029	262,987	199,533
2030-2034	297,768	164,748
2035-2039	337,156	125,361
2040-2044	381,752	80,763
2045-2049	432,247	30,269
	\$ 1,900,000	\$ 830,100

NOTE 18 OPERATING LEASES

The Town entered into a lease for 200 acres of farm land with a farmer on October 17, 2012. The lease expired December 31, 2016. The lease was renewed through December 31, 2017 with a possible year to year extension of up to four more years at the sole discretion of the Town. The lease was most recently renewed through December 31, 2019. The annual rental income from this lease amounts to \$35,200.

NOTE 19 COMMITMENTS

The Town began construction of the new water treatment plant during the year ended June 30, 2019. As discussed in Note 8, the construction is being partially funded by the Maryland Water Department of the Environment, via the issuance of two bonds totaling \$8,771,545. The total cost of the project is approximately \$9,500,000, with the remaining cost being funded internally by the Town. As of June 30, 2019, the Town has spent \$2,707,685 on the project. Of this amount, \$2,039,123 has been drawn on the bonds to finance construction.

NOTE 20 WIRELESS TOWER INCOME

The Town receives monthly income from contracts with Sprint, Verizon, AT&T, and T-Mobile. The contracts call for monthly payments ranging from \$2,372 per tower to \$5,389 per tower. The contracts call for annual increases of 3-4% and contain automatic renewal clauses in five-year increments. Current agreements expire between April 2022 and March 2024. Future minimum lease receipts are as follows:

2020	\$ 207,995
2021	\$ 215,940
2022	\$ 217,167
2023	\$ 110,043
2024	\$ 25,090

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Schedule of Town's Proportionate Share of the Net Pension Liability -
Maryland State Retirement and Pension System
Employees' Retirement and Pension Systems
Last 10 Fiscal Years * (Unaudited)

	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0034%	0.0030%	0.0031%	0.0032%	0.0029%
Town's proportionate share of the net pension liability	\$ 705,083	\$ 655,187	\$ 723,711	\$ 670,226	\$ 522,243
State's proportionate share of the net pension liability associated with the Town	-	-	-	-	-
Total	<u>\$ 705,083</u>	<u>\$ 655,187</u>	<u>\$ 723,711</u>	<u>\$ 670,226</u>	<u>\$ 522,243</u>
Town's covered-employee payroll	\$ 830,650	\$ 782,834	\$ 754,832	\$ 700,523	\$ 699,913
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	84.88%	83.69%	95.88%	95.68%	74.62%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	68.78%	71.87%

Notes

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For MSRPS, the measurement period year-end is one year prior to the fiscal year-end.

* 2015-2019 are the only years available. This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

2019 amounts reflect changes in assumptions as follows:
Discount rate and investment rate of return decreased from 7.5% to 7.45%.
Inflation decreased from 2.65 general, 3.15 wage to 2.60 general, 3.10 wage.
Salary increase range decreased from 3.15-9.15% to 3.10-9.10%.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Schedule of Town's Contributions -
Maryland State Retirement and Pension System
Employees' Retirement and Pension Systems
Last 10 Fiscal Years * (Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 74,759	\$ 67,011	\$ 61,670	\$ 59,755	\$ 67,977
Contributions in relation to the contractually required contribution	<u>74,759</u>	<u>67,011</u>	<u>61,670</u>	<u>59,755</u>	<u>67,977</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Town's covered-employee payroll	\$ 830,650	\$ 782,834	\$ 754,832	\$ 700,523	\$ 699,913
Contributions as a percentage of covered-employee payroll	9.00%	8.56%	8.17%	8.53%	9.71%

Notes

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For MSRPS, the measurement period year-end is one year prior to the fiscal year-end.

* 2015-2019 are the only years available. This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual -
General Fund
Year Ended June 30, 2019
(Unaudited)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local property taxes and interest				
Real property	\$ 965,367	\$ 965,367	\$ 967,359	\$ 1,992
Personal property	220,000	220,000	267,478	47,478
Penalties and interest	9,000	9,000	9,800	800
	<u>1,194,367</u>	<u>1,194,367</u>	<u>1,244,637</u>	<u>50,270</u>
Licenses and permits				
Traders	3,000	3,000	5,285	2,285
Planning and zoning	10,000	10,000	24,740	14,740
	<u>13,000</u>	<u>13,000</u>	<u>30,025</u>	<u>17,025</u>
Grants and shared taxes				
State of Maryland				
Admissions	51,500	51,500	50,744	(756)
Highway tax	198,986	198,986	213,306	14,320
Grant for police protection	39,740	39,740	38,345	(1,395)
Program Open Space grant	189,925	189,925	-	(189,925)
Frederick County				
Income tax	796,640	796,640	921,708	125,068
Grant in lieu of property taxes	1,030	1,030	1,030	-
Tax equity program	898,337	898,337	898,337	-
	<u>2,176,158</u>	<u>2,176,158</u>	<u>2,123,470</u>	<u>(52,688)</u>
Other Revenue				
Interest	80,000	80,000	198,726	118,726
Franchise fees	82,100	82,100	79,395	(2,705)
Rent	54,400	54,400	59,173	4,773
Contributions and donations	8,000	8,000	4,776	(3,224)
Recycling center	6,900	6,900	7,032	132
Designated from surplus	-	1,900,000	-	(1,900,000)
Other	1,000	1,000	1,426	426
	<u>232,400</u>	<u>2,132,400</u>	<u>350,528</u>	<u>(1,781,872)</u>
Total Revenues	\$ 3,615,925	\$ 5,515,925	\$ 3,748,660	\$ (1,767,265)
EXPENDITURES				
General Government				
Legislative				
Town Council				
Commissioners' salaries	\$ 18,000	\$ 18,000	\$ 18,000	\$ -
Other				
Salaries	227,500	227,500	228,815	(1,315)
Operating expenses	12,600	12,600	20,661	(8,061)
Training, meetings, and travel	9,500	9,500	4,297	5,203
	<u>267,600</u>	<u>267,600</u>	<u>271,773</u>	<u>(4,173)</u>
Executive				
Burgess' salary	12,500	12,500	12,500	-
Financial administration				
Independent auditing	10,000	10,000	9,500	500
Operating expenses	10,000	10,000	4,921	5,079
	<u>20,000</u>	<u>20,000</u>	<u>14,421</u>	<u>5,579</u>
Legal expenses	20,000	20,000	11,912	8,088
Planning and zoning	119,100	119,100	125,028	(5,928)
Municipal buildings				
Utilities	50,000	50,000	47,593	2,407
Repairs and maintenance	35,000	35,000	26,813	8,187
	<u>85,000</u>	<u>85,000</u>	<u>74,406</u>	<u>10,594</u>
Other				
Dues	8,325	8,325	8,297	28
County property taxes	5,000	5,000	4,352	648
	<u>13,325</u>	<u>13,325</u>	<u>12,649</u>	<u>676</u>
Total General Government	537,525	537,525	522,689	14,836

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual -
General Fund
Year Ended June 30, 2019
(Unaudited)

(Continued)	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety				
Police and traffic control	969,260	969,260	1,038,651	(69,391)
Code enforcement	20,000	20,000	12,957	7,043
Volunteer company contributions:				
Fire department	12,500	12,500	12,500	-
Ambulance service	12,500	12,500	12,500	-
Total Public Safety	1,014,260	1,014,260	1,076,608	(62,348)
Public Works				
Streets, roadways, and alleys				
Salaries	417,950	417,950	390,797	27,153
Maintenance	100,500	100,500	67,115	33,385
Parts, tools, and supplies	10,000	10,000	13,235	(3,235)
Truck and equipment	60,000	60,000	51,979	8,021
Street lighting	70,000	70,000	59,983	10,017
Safety	3,500	3,500	2,048	1,452
Uniforms/Boots	10,000	10,000	7,383	2,617
Total Public Works	671,950	671,950	592,540	79,410
Waste Collection and Disposal	281,900	281,900	224,500	57,400
Recreation and Culture				
Parks and recreation	40,000	40,000	42,308	(2,308)
Parks - mowing	90,000	90,000	87,831	2,169
Parks - Program Open Space	266,584	266,584	-	266,584
Heritage Building	2,000	2,000	-	2,000
Heritage Manor House	10,000	10,000	5,999	4,001
Senior citizens	15,000	15,000	12,000	3,000
Total Recreation and Culture	423,584	423,584	148,138	275,446
Non-Departmental				
Retirement and pension costs	63,000	63,000	59,998	3,002
Workmen's compensation	14,500	14,500	16,913	(2,413)
Payroll taxes	62,200	62,200	57,619	4,581
Medical insurance	155,800	155,800	126,285	29,515
Insurance	20,000	20,000	14,056	5,944
Community contributions	1,350	3,850	3,450	400
Security measures	12,000	12,000	6,935	5,065
Other	16,500	16,500	16,374	126
Total Non-Departmental	345,350	347,850	301,630	46,220
Capital Outlay				
Machinery and equipment	75,000	75,000	63,553	11,447
GIS zoning layers maintenance	10,000	10,000	-	10,000
Available for capital projects	30,856	28,356	-	28,356
Park projects	35,000	35,000	-	35,000
Glade Village paving	131,500	131,500	-	131,500
HFP building maintenance	3,000	3,000	-	3,000
Moveable electronic signs	50,000	50,000	-	50,000
Watershed development	6,000	6,000	-	6,000
Paving	-	-	53,108	(53,108)
HFP GVAA building	-	-	16,197	(16,197)
Fountain Rock Road	-	-	6,268	(6,268)
Loan to Water Fund - sewer capacity fees	-	1,900,000	-	1,900,000
Total Capital Outlay	341,356	2,238,856	139,126	2,099,730
Total Expenditures	3,615,925	5,515,925	3,005,231	2,510,694
CHANGE IN FUND BALANCE	\$ -	\$ -	\$ 743,429	\$ 743,429

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenditures, and Change in Net Position – Budget and Actual –
Water Fund
Year Ended June 30, 2019
(Unaudited)

	Budgeted Amounts		Budgetary Basis	Variance with
	Original	Final	Actual Amounts	Final Budget - Positive (Negative)
REVENUES				
Operating Revenues				
Charges for service	\$ 1,124,140	\$ 1,124,140	\$ 1,129,065	\$ 4,925
Meter service charge	2,000	2,000	1,760	(240)
Connection fees	-	-	76,800	76,800
Penalties and interest	16,500	16,500	17,712	1,212
Other income	500	500	50	(450)
Total Operating Revenues	1,143,140	1,143,140	1,225,387	82,247
Non-operating Revenues				
Carryover of fund balance to finance current year's operations	209,952	209,952	-	(209,952)
Wireless tower income	193,000	193,000	200,072	7,072
Interest income	5,000	5,000	23,537	18,537
Total Non-operating Revenues	407,952	407,952	223,609	(184,343)
TOTAL REVENUES	1,551,092	1,551,092	1,448,996	(102,096)
EXPENSES				
Operating Expenses				
Salaries	231,900	231,900	221,384	10,516
Electricity	70,000	70,000	75,512	(5,512)
Distribution maintenance	140,000	140,000	181,892	(41,892)
Parts, supplies, and tools	1,500	1,500	2,465	(965)
Chemicals	185,000	185,000	171,770	13,230
Sewer treatment fees	120,000	120,000	127,311	(7,311)
Other operating expenses	79,600	79,600	15,292	64,308
Audit	10,000	10,000	9,500	500
Legal fees	5,000	5,000	17,404	(12,404)
Administrative expenses	21,400	21,400	36,461	(15,061)
Pension plan	18,820	18,820	37,818	(18,998)
Workmen's compensation insurance	5,740	5,740	5,871	(131)
Payroll taxes	17,740	17,740	16,387	1,353
Property insurance	15,000	15,000	13,495	1,505
Medical insurance	62,240	62,240	54,323	7,917
Safety	500	500	865	(365)
Miscellaneous	8,000	8,000	981	7,019
Total Operating Expenses	992,440	992,440	988,731	3,709
Capital Outlay				
Equipment	5,500	5,500	9,171	(3,671)
Buildings	-	-	4,995	-
MS4	10,000	10,000	-	10,000
Water treatment plant	-	-	2,722,951	(2,722,951)
Glade Village water line replacement	543,152	543,152	366,098	177,054
Total Capital Outlay	558,652	558,652	3,103,215	(2,539,568)
Other Expenses				
Interest expense	-	-	17,046	(17,046)
Sewer capacity fees	-	-	1,983,068	(1,983,068)
Total Other Expenses	-	-	2,000,114	(2,000,114)
Total Expenses	1,551,092	1,551,092	6,092,060	(4,535,973)
NET (LOSS) BUDGETARY BASIS	\$ -	\$ -	(4,643,064)	\$ (4,638,069)
ADJUSTMENT TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) BASIS				
To adjust for depreciation			(188,927)	
To adjust for capital outlay			3,103,215	
NET (LOSS) GAAP BASIS			\$ (1,728,776)	

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

Burgess and Commissioners of Walkersville, MD
Walkersville, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Burgess and Commissioners of Walkersville, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Burgess and Commissioners of Walkersville's basic financial statements and have issued our report thereon dated October 21, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burgess and Commissioners of Walkersville's financial statements are free from material misstatement, we performed tests of 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.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
October 21, 2019