

TOWN OF MILLINGTON

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

TOWN OF MILLINGTON

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Independent Auditors' Report

To the Mayor and Council
Town of Millington

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the Town of Millington as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Millington as of June 30, 2020, 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.

Independent Auditors' Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 29 through 30 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, on our consideration of the Town of Millington'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Millington's internal control over financial reporting and compliance.

Emphasis of Matter

Adjustments Related to Prior Periods

As discussed in Note 13 to the financial statements, it was determined that amounts due for services rendered to the Town in a previous period were not recorded in the Town's financial statements in the period rendered. Accordingly, an adjustment has been made to beginning net position of business-type activities and the Town's major enterprise fund. Our opinions are not modified with respect to this matter

Weirich, Cronin & Serra, LLC

October 29, 2020
Hunt Valley, MD

TOWN OF MILLINGTON

Management Discussion and Analysis June 30, 2020

This discussion and analysis of the Town of Millington's financial performance reviews the Town's activities for the fiscal year ended June 30, 2020. The Town has two major parts to its financial statements. The first part is the "government wide" statements which combine all operations carried out by the Town. The second part is the "fund accounting"; which is separated into the "Governmental Fund" which represents the normal governmental activities of administration, public safety, etc.; and the "Proprietary Fund" which represents the Town's water and sewer utility, a fund which operates on the utility revenues like a business. In addition to the basic financial statements, this report contains other required supplemental information that will enhance the reader's understanding of the financial condition of the Town of Millington.

Government Wide Financial Statements:

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The statements provide short-term and long-term financial information about the Town's financial status.

Government wide financial statements of the Town are divided into two major categories. These are defined below:

- **Government Activities:** All the basic services are covered under this category, consisting of General Government Administration, Public Works, Public Safety, and Parks and Recreation Departments. Property taxes, charges for services, state shared revenues, rental fees and miscellaneous revenues provided for the funding under this category.
- **Business-Type Activities:** User fees and charges to customers pay for the expense of operating the Town's Water and Wastewater Treatment Facilities.

Fund Financial Statements:

These statements provide for more detailed information about significant funds. A review of these statements gives the reader further insight into the overall funding for the Town. The Town of Millington has two kinds of funds: They are:

- **Governmental Funds:** These funds include the Town's basic services. They include funds that are available to the Town or the functions of the Town on a daily basis, including cash on-hand and other financial assets (i.e., certificates of deposit, savings, etc.). These statements provide a detailed short-term view of the overall financial resources that are available to the Town that can be spent to sustain the Town's financial programs.
- **Proprietary Funds:** These are funds made available for the services provided by the Town through user fees. Just like government-wide-statements, they provide both long-term and short-term financial information.

TOWN OF MILLINGTON

Management Discussion and Analysis

June 30, 2020

Condensed Financial Information

Financial Overview

The Town's current net position is \$3,773,000. These are broken down as General Governmental Activities of \$1,240,142 and Business Type Activities of \$2,532,858. In a condensed format below is a chart that shows a comparison of net position of the current year to the previous year.

	Governmental Activities		Business Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current Assets	\$ 130,490	\$ 75,690	\$ 146,512	\$ 199,300	\$ 277,002	\$ 274,990
Capital Assets	912,204	930,996	3,774,216	3,991,778	4,686,420	4,922,774
Other Assets	208,120	191,635	(202,729)	(186,244)	5,391	5,391
Total Assets	\$ 1,250,814	\$ 1,198,321	\$ 3,717,999	\$ 4,004,834	\$ 4,968,813	\$ 5,203,155
Current Liabilities	10,672	10,254	94,675	110,148	105,347	120,402
Noncurrent Liabilities	- 0 -	- 0 -	1,090,466	1,115,666	1,090,466	1,115,666
Total Liabilities	\$ 10,672	\$ 10,254	\$ 1,185,141	\$ 1,225,814	\$ 1,195,813	\$ 1,236,068
Net Investment in						
Capital Assets	\$ 912,204	\$ 930,996	\$ 2,658,028	\$ 2,851,425	\$ 3,570,232	\$ 3,782,421
Restricted	7,716	7,716	15,600	- 0 -	23,316	7,716
Unrestricted	320,222	249,355	(140,770)	(87,461)	179,452	161,894
Total Net Position	<u>\$ 1,240,142</u>	<u>\$ 1,188,067</u>	<u>\$ 2,532,858</u>	<u>\$ 2,763,964</u>	<u>\$ 3,773,000</u>	<u>\$ 3,952,031</u>

Total Net Position decrease of \$179,031 during the year was comprised of the Governmental activities increase of \$52,075 and Business-type activities decrease of \$231,106.

TOWN OF MILLINGTON

Management Discussion and Analysis
June 30, 2020

The following table shows the changes in Net Position for 2020 and 2019.

	Governmental Activities		Business Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenue						
Program Revenue						
Charges for Services	\$ 14,735	\$ 6,125	\$ 394,731	\$ 366,353	\$ 409,466	\$ 372,478
Operating Grants & Contributions	21,518	20,329	- 0 -	- 0 -	21,518	20,329
Capital Grants & Contributions	- 0 -	61,950	- 0 -	- 0 -	- 0 -	61,950
Total Program Revenue	<u>\$ 36,253</u>	<u>\$ 88,404</u>	<u>\$ 394,731</u>	<u>\$ 366,353</u>	<u>\$ 430,984</u>	<u>\$ 454,757</u>
General Revenue						
Taxes	181,338	172,090	- 0 -	- 0 -	181,338	172,090
Cable Franchise	3,519	3,340	- 0 -	- 0 -	3,519	3,340
Other Income	2,455	4,528	- 0 -	- 0 -	2,455	4,528
Investment Income	436	451	118	791	554	1,242
Total General Revenue	<u>\$ 187,748</u>	<u>\$ 180,409</u>	<u>\$ 118</u>	<u>\$ 791</u>	<u>\$ 187,866</u>	<u>\$ 181,200</u>
Total Revenue	<u>\$ 224,001</u>	<u>\$ 268,813</u>	<u>\$ 394,849</u>	<u>\$ 367,144</u>	<u>\$ 618,850</u>	<u>\$ 635,957</u>
General Government Expense						
General Government	\$ 96,162	\$ 80,385	\$ - 0 -	\$ - 0 -	\$ 96,162	\$ 80,385
Public Safety	2,399	1,634	- 0 -	- 0 -	2,399	1,634
Public Works	65,650	64,082	- 0 -	- 0 -	65,650	64,082
Parks & Rec	29,315	28,123	- 0 -	- 0 -	29,315	28,123
Total General Government Expense	<u>\$ 193,526</u>	<u>\$ 174,224</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 193,526</u>	<u>\$ 174,224</u>
Business Activity Expenses						
Water and Sewer	- 0 -	- 0 -	625,955	579,883	625,955	579,883
Total Business Activity Expenses	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 625,955</u>	<u>\$ 579,883</u>	<u>\$ 625,955</u>	<u>\$ 579,883</u>
Total Expenses	<u>\$ 193,526</u>	<u>\$ 174,224</u>	<u>\$ 625,955</u>	<u>\$ 579,883</u>	<u>\$ 819,481</u>	<u>\$ 754,107</u>
Unusual item	<u>\$ 21,600</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 21,600</u>	<u>\$ - 0 -</u>
Change in Net Position	\$ 52,075	\$ 94,589	\$ (231,106)	\$ (212,739)	\$ (179,031)	\$ (118,150)
Beginning Net Position	<u>\$ 1,188,067</u>	<u>\$ 1,093,478</u>	<u>\$ 2,763,964</u>	<u>\$ 2,976,703</u>	<u>\$ 3,952,031</u>	<u>\$ 4,070,181</u>
Ending Net Position	<u>\$ 1,240,142</u>	<u>\$ 1,188,067</u>	<u>\$ 2,532,858</u>	<u>\$ 2,763,964</u>	<u>\$ 3,773,000</u>	<u>\$ 3,952,031</u>

TOWN OF MILLINGTON

Management Discussion and Analysis June 30, 2020

Governmental Funds:

Total revenue for Governmental Funds for FY 2020 was \$210,405 compared to \$264,556 for FY 2019. Total expenses for FY 2020 were \$153,134 compared to \$198,841 for FY 2019. Governmental Funds consisted of the General Fund.

Total changes in Governmental Funds were as follows:

	<u>General Fund</u>
Beginning Balance	\$ 235,371
FY 2020 Change	<u>57,271</u>
Ending Balance	<u>\$ 292,642</u>

Proprietary Funds:

Proprietary Funds for the Town consisted of the Water and Sewer Fund. Total revenue for Proprietary Funds for FY 2020 was \$394,849 compared to \$367,144 for FY 2019. Total expenses for FY 2020 were \$625,955 compared to \$579,883 for FY 2019. This resulted in a net decrease in net position during FY 2020 of \$231,106.

Budgetary Analysis

The Town of Millington adopts an annual budget as is required by the general statutes for the State of Maryland. The budget is a legally adopted document that incorporates input from the Town's management team, Mayor and Council, and the Town's citizens determining which services to provide and how to pay for these services. The budget also authorizes the Town to obtain funds to finance activities as the need arises. The Town experienced greater than expected income taxes and intergovernmental receipts.

Capital Assets

The water and sewer fund acquired \$11,605 of equipment during FY 2020. The general fund was the recipient of \$21,600 of donated real property and equipment during FY 2020. As of June 30, 2020 the Town as a whole reported \$4,686,420 (net of depreciation) of capital assets.

Long-Term Obligations

Bonds payable were reduced during FY 2020 \$24,165 from \$1,140,353 to \$1,116,188.

Significant Financial Highlights for FY 2020

- The Town received approval from FEMA/MEMA to acquire an additional property in the Flood Zone in Queen Anne's County through the Mitigation Hazard Program with a budgeted cost of \$101,950. The property was acquired in FY 2019. Due to the COVID-19 pandemic the project was placed on hold until Fall 2020.
- The Town Council signed an agreement with Home Partnership, LLC to construct a Senior Housing Project on Town property in Mill Village. Determination of management and maintenance are pending. The property is to be developed with funding through various State agencies. Due to the COVID-19 pandemic project funding agencies have placed applications on hold until 2021-2022.

TOWN OF MILLINGTON

Management Discussion and Analysis June 30, 2020

- The Town Council received approval for a PER grant through USDA Rural Development to determine the best option for repairs to faulty water distribution system. The budgeted costs and grant funding is \$30,000. The PER was completed and accepted by USDA during FY20; funding is anticipated to finalize in Fall 2020.
- The Town Council received approval for a PER grant through USDA Rural Development to determine the best option for upgrades to the wastewater treatment system as well as researching alternatives to housing the plant in a known flood area. The budgeted costs and grant funding is \$30,000. The development of the PER document is ongoing and the anticipated completion date is Winter 2020.
- The Town received from SERCAP a utility rate study for the water and sewer facilities. This rate study will assure future rates are in line for sustainability of the utility plants and future growth. Due to this rate study, the base rate used to charge for water and sewer services was increased as well as the rate for actual usage was increased. The Town's original budget proposal for FY2021 included necessary water and sewer rate increases; but due to the COVID-19 pandemic and the Governor's mandates, these rate increases were placed on hold until next budget period.
- During its budget workshop the Town Council reviewed property tax rates; a proposal to raise the property tax rate by 1%; but due to the COVID-19 pandemic and the Governor's mandates; this rate increase was placed on hold until next budget period.
- The Town annexed property owned by L. Freeman Evans, approximately 125.67 acres north west of the current Town boundaries for future development of residential and commercial sites. The Town is working with DNR to secure a utility easement through property that borders Mr. Evans' property to meet future development needs.
- The Town is working with the Trustees of the Maloney property to annex approximately 142 acres north west of the current Town boundaries for future development of residential and commercial sites.
- The Town is working with various Health facilities to bring much needed health care to Town citizens and the surrounding area residents. The initial plan is to make this part of the Senior Housing project in Mill Village.
- The Town is working with State Highway Administration on an urban beautification project to Sassafras Street and Cypress Street. This project began in 2019 with replacement of sidewalks and installation of a new storm water drainage system. During this project, water leaks were found and repaired; as well as sewer connection conflicts for a cost in excess of \$60,000.
- The Town completed the renovation of an unused meeting room at the Town Office to a computer center/free library for area residents. The computer stations and library material are donated by residents and businesses. This allows those residents that do not have a computer or internet access to handle the changes required due to the COVID-19 pandemic; virtual education, virtual meetings, access to State agencies, etc.

TOWN OF MILLINGTON

Management Discussion and Analysis June 30, 2020

Due to continual decrease in the funding received from State shared-funds, an increase in home foreclosures and the Town's faulty water system, the Town continues to cut costs and monitor expenses. The Town is working with FEMA, MEMA, and the State to provide mitigation funding to make the necessary corrections at the wastewater treatment plant to minimize future damage due to hurricanes, tidal storms, and other disasters. The Town is working with State Highway Administration on an urban beautification project for Sassafras Street and Cypress Street. The Town plans to work with Department of Natural Resources to extend the Water Front Park to include the acquired property through the FEMA/MEMA Acquisition program. The Town is working with USDA Rural development to secure funding for renovation and upgrading of the existing town office building.

The Town of Millington is a small town consisting of two part-time employees in maintenance, a part-time Town Clerk, and a full-time Town Administrator. Despite the Town's best efforts occasionally our internal controls fail to detect and correct errors as well as there is an inadequate segregation of duties. Due to these issues policies and procedures must be developed and adhered to, including but not limited to overseeing of all financial transactions by Administration as well as members of Mayor and Council.

The financial statements are closely watched by management and Mayor and Council to allow for any adjustments that may be necessary due to unforeseen circumstances. The Town's Mayor and Council continually strive to provide adequate services without substantial increase to property taxes, miscellaneous fees, and periodic adjustments of utility fees to its property owners. There is future potential of growth due to the approval of the annexation of approximately 126 acres on the north end of Millington and a potential additional annexation of approximately 142 acres on the north end of Millington. There are continual discussions between the Town and County with regards to the ownership of the water and sewer lines west of the Town of Millington and future growth in the County. There are continual discussions with DNR regarding the future use of property previously annexed into Town and future water/sewer connections.

Requests for additional information

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Town Office at 402 Cypress Street, P O Box 330, Millington, MD 21651. Telephone 410-928-3880.

TOWN OF MILLINGTON

Statement of Net Position
June 30, 2020

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 71,246	\$ - 0 -	\$ 71,246
Cash - restricted	7,716	- 0 -	7,716
Receivables:			
Other receivables	7,095	64,833	71,928
Due from other governments	33,203	81,679	114,882
Property taxes	11,230	- 0 -	11,230
TOTAL CURRENT ASSETS	130,490	146,512	277,002
CAPITAL ASSETS			
Construction in progress - nondepreciable	1,638	- 0 -	1,638
Land - nondepreciable	506,650	- 0 -	506,650
Infrastructure, buildings and equipment	816,247	7,450,812	8,267,059
Less: accumulated depreciation	(412,331)	(3,676,596)	(4,088,927)
TOTAL CAPITAL ASSETS	912,204	3,774,216	4,686,420
OTHER ASSETS			
Certificate of deposit	5,391	- 0 -	5,391
Internal balances	202,729	(202,729)	- 0 -
TOTAL OTHER ASSETS	208,120	(202,729)	5,391
TOTAL ASSETS	1,250,814	3,717,999	4,968,813
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	10,672	68,953	79,625
Current portion - bonds payable	- 0 -	25,722	25,722
TOTAL CURRENT LIABILITIES	10,672	94,675	105,347
NONCURRENT LIABILITIES			
Bonds payable, net of current portion	- 0 -	1,090,466	1,090,466
TOTAL LIABILITIES	10,672	1,185,141	1,195,813
NET POSITION			
Net investment in capital assets	912,204	2,658,028	3,570,232
Restricted	7,716	15,600	23,316
Unrestricted	320,222	(140,770)	179,452
TOTAL NET POSITION	\$ 1,240,142	\$ 2,532,858	\$ 3,773,000

See accompanying notes to financial statements

TOWN OF MILLINGTON

Statement of Activities
For the Year Ended June 30, 2020

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
GOVERNMENTAL ACTIVITIES							
General government	\$ 96,162	\$ 7,544	\$ 1,500	\$ - 0 -	\$ (87,118)	\$ - 0 -	\$ (87,118)
Public safety	2,399	-	- 0 -	- 0 -	(2,399)	- 0 -	(2,399)
Public works	65,650	7,191	20,018	- 0 -	(38,441)	- 0 -	(38,441)
Parks and recreation	29,315	- 0 -	- 0 -	- 0 -	(29,315)	- 0 -	(29,315)
Total Governmental Activities	<u>193,526</u>	<u>14,735</u>	<u>21,518</u>	<u>- 0 -</u>	<u>(157,273)</u>	<u>- 0 -</u>	<u>(157,273)</u>
BUSINESS-TYPE ACTIVITIES							
Water and sewer system	625,955	394,731	- 0 -	- 0 -	- 0 -	(231,224)	(231,224)
Total Business-Type Activities	<u>625,955</u>	<u>394,731</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>(231,224)</u>	<u>(231,224)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 819,481</u>	<u>\$ 409,466</u>	<u>\$ 21,518</u>	<u>\$ - 0 -</u>	<u>(157,273)</u>	<u>(231,224)</u>	<u>(388,497)</u>
GENERAL REVENUES							
Taxes:							
Property					115,413	- 0 -	115,413
Income and other					65,925	- 0 -	65,925
Franchise fees					3,519	- 0 -	3,519
Investment income					436	118	554
Other income					2,455	- 0 -	2,455
TOTAL GENERAL REVENUES					<u>187,748</u>	<u>118</u>	<u>187,866</u>
UNUSUAL ITEM:							
Donation of real property and equipment					21,600	0	21,600
CHANGE IN NET POSITION					<u>52,075</u>	<u>(231,106)</u>	<u>(179,031)</u>
NET POSITION - BEGINNING							
As previously reported					1,188,067	2,779,020	3,967,087
Adjustments relating to prior periods					- 0 -	(15,056)	(15,056)
NET POSITION - BEGINNING - AS RESTATED					<u>1,188,067</u>	<u>2,763,964</u>	<u>3,952,031</u>
NET POSITION - ENDING					<u>\$ 1,240,142</u>	<u>\$ 2,532,858</u>	<u>\$ 3,773,000</u>

See accompanying notes to financial statements

TOWN OF MILLINGTON

Balance Sheet
Governmental Funds
June 30, 2020

		General Fund
<u>ASSETS</u>		
Cash and cash equivalents	\$	71,246
Cash - restricted		7,716
Receivables:		
Due from other governments		33,203
Property taxes		11,230
Other		7,095
Advances to other funds		202,729
Certificate of deposit		5,391
TOTAL ASSETS		\$ 338,610
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>		
<u>LIABILITIES:</u>		
Accounts payable and accrued expenses	\$	10,672
TOTAL LIABILITIES		\$ 10,672
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Unavailable revenue - property taxes		7,417
Unavailable revenue - intergovernmental - highway fees		4,278
Unavailable revenue - intergovernmental - income taxes		21,038
Unavailable revenue - other		2,563
TOTAL DEFERRED INFLOWS OF RESOURCES		35,296
<u>FUND BALANCES:</u>		
Nonspendable		202,729
Restricted:		
Reforestation		7,716
Committed:		
Capital projects		23,500
Unassigned		58,697
TOTAL FUND BALANCES		292,642
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		\$ 338,610

See accompanying notes to financial statements

TOWN OF MILLINGTON

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2020

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 292,642

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds.

Governmental capital assets	\$ 1,324,535	
Less: accumulated depreciation	<u>(412,331)</u>	
		912,204

Receivables that are measurable but not collected within 60 days are not considered available for use in the near term, and therefore, are not reported in the governmental funds.

Property taxes	7,417	
Other	2,563	
Due from other governments	<u>25,316</u>	
		<u>35,296</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,240,142

TOWN OF MILLINGTON

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

	<u>General Fund</u>	
REVENUES:		
Property taxes	\$ 113,873	
Income and other taxes	66,438	
Licenses and permits	9,963	
Intergovernmental - state	17,240	
Miscellaneous	<u>2,891</u>	
TOTAL REVENUES		\$ 210,405
EXPENDITURES:		
Current operating		
General government	92,388	
Public safety	2,399	
Public works	51,768	
Parks and recreation	<u>6,579</u>	
TOTAL EXPENDITURES		<u>153,134</u>
EXCESS OF REVENUES OVER EXPENDITURES		57,271
FUND BALANCES - BEGINNING		<u>235,371</u>
FUND BALANCES - ENDING		<u><u>\$ 292,642</u></u>

See accompanying notes to financial statements

TOWN OF MILLINGTON

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 57,271

Amounts reported for Governmental Activities
in the Statement of Activities are different
because:

Governmental funds report capital outlays as expenditures,
however, in the Statement of Activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense.

Total depreciation for the year	\$ (40,392)	
Capital purchases	<u>- 0 -</u>	(40,392)

Governmental funds recognize revenues if they provide current
financial resources. The contribution of real property and
equipment to the Town will be utilized in the government's
general operations, and therefore is not a current financial
resource. 21,600

Governmental funds recognize revenues if they are received
within sixty days of year end. The Statement of Activities
reports revenues when earned.

Revenues earned, but not received in the current period:

Other	2,563	
Highway user fees	4,278	
Property taxes	77	
Income taxes	<u>6,678</u>	<u>13,596</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 52,075

TOWN OF MILLINGTON

Statement of Net Position Proprietary Fund June 30, 2020

Major Enterprise Fund Water and Sewer System

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ - 0 -
Water and sewer charges receivable	64,833
Due from other governments	<u>81,679</u>

TOTAL CURRENT ASSETS \$ 146,512

CAPITAL ASSETS:

Buildings and equipment	7,450,812
Less: accumulated depreciation	<u>(3,676,596)</u>

TOTAL CAPITAL ASSETS 3,774,216

TOTAL ASSETS 3,920,728

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	68,953
Current portion - bonds payable	<u>25,722</u>

TOTAL CURRENT LIABILITIES 94,675

NONCURRENT LIABILITIES:

Bonds payable, net of current portion	1,090,466
Advances from other funds	<u>202,729</u>

TOTAL NONCURRENT LIABILITIES 1,293,195

TOTAL LIABILITIES 1,387,870

NET POSITION

Net investment in capital assets	2,658,028
Restricted for capital improvements	15,600
Unrestricted	<u>(140,770)</u>

TOTAL NET POSITION \$ 2,532,858

See accompanying notes to financial statements

TOWN OF MILLINGTON

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2020

	Major Enterprise Fund		
	Water System	Sewer System	Total
OPERATING REVENUES			
Fees - town residents	\$ 157,059	\$ 122,293	\$ 279,352
Fees - other governments	45,151	48,321	93,472
Connections fees	8,000	7,600	15,600
Penalties and interest	3,154	3,154	6,307
	<u>213,364</u>	<u>181,368</u>	<u>394,731</u>
OPERATING EXPENSES			
Payroll and payroll taxes	20,884	20,884	41,768
Operator costs	28,872	48,753	77,625
Laboratory and testing	2,436	13,994	16,430
Professional fees	11,806	13,676	25,482
Insurance	1,905	4,473	6,378
Office expenses	3,719	3,979	7,698
Miscellaneous	1,189	1,052	2,241
Utilities	15,194	27,348	42,542
Supplies and materials	14,987	10,048	25,035
Repairs and maintenance	68,914	29,107	98,021
Permit fees	554	5,798	6,352
Depreciation	107,109	122,058	229,167
	<u>277,569</u>	<u>301,170</u>	<u>578,739</u>
OPERATING LOSS	<u>(64,206)</u>	<u>(119,803)</u>	<u>(184,008)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	59	59	118
Interest expense and bond administration fees	(47,216)	- 0 -	(47,216)
	<u>(47,157)</u>	<u>59</u>	<u>(47,098)</u>
NET CHANGE IN FUND NET POSITION	<u>\$ (111,363)</u>	<u>\$ (119,744)</u>	<u>(231,106)</u>
TOTAL NET POSITION - BEGINNING			
As previously reported			2,779,020
Adjustments relating to prior periods			(15,056)
TOTAL NET POSITION - BEGINNING - AS RESTATED			<u>2,763,964</u>
TOTAL NET POSITION - ENDING			<u>\$ 2,532,858</u>

See accompanying notes to financial statements

TOWN OF MILLINGTON

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2020

		Major Enterprise fund Water and Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 430,202	
Cash payments to suppliers	(339,368)	
Cash payments to employees	(41,768)	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 49,066
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers from General Fund		16,485
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		16,485
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Principal payments on bond		(24,165)
Interest payments and administrative fees paid on bond		(47,216)
Acquisition of capital assets		(11,605)
NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		(82,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of interest and other income		118
NET CASH FLOWS FROM INVESTING ACTIVITIES		118
NET DECREASE IN CASH AND CASH EQUIVALENTS		(17,317)
CASH AND CASH EQUIVALENTS - BEGINNING		17,317
CASH AND CASH EQUIVALENTS - ENDING		\$ - 0 -
Reconciliation of operating loss to net cash flows from operating activities:		
Operating Loss		\$ (184,008)
Add depreciation expense	\$ 229,167	
(Increase) decrease in current assets:		
Water and sewer charges receivable	36,973	
Due from other governments	(1,502)	
Decrease in current liabilities:		
Accounts payable	(31,564)	
Total adjustments		233,074
Net cash provided by operating activities		\$ 49,066

See accompanying notes to financial statements

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

1. Summary of Significant Accounting Policies

The Town of Millington, Maryland (the "Town") was founded in 1890 under the provisions of the State of Maryland Public Local Law, Chapter 171. The Town is located in Kent and Queen Anne's Counties, Maryland. The Town operates under a Mayor-Council form of government and provides the following services to its citizens as authorized by its charter: public safety, public works, planning and zoning, recreation, and general administrative services. A substantial portion of the Town's revenue is received from the property and income taxes related to the residents and businesses of the Town, and services provided by its Water and Sewer Systems.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility or the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based on this criteria, the Town has concluded that there are no component unit relationships that are required to be presented in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services and facilities; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets, when applicable. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government-wide statements incorporates data from governmental funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for each major governmental and proprietary fund. There are no fiduciary funds held by the Town.

TOWN OF MILLINGTON

Notes to Financial Statements June 30, 2020

1. Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included in the balance sheet. The Town's deferred outflows of resources and deferred inflows of resources are noncurrent. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accruals include: Income tax receipts, property taxes and capital grants. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). In general, all other revenues are considered to be measurable and available when cash is received.

Since the governmental funds financial statements are presented using a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each fund level statement that summarizes the adjustments necessary to convert the fund level statements into the government-wide presentation.

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

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as "advances to/from other funds." These funds were utilized by the utility fund to fund capital projects related to the water and wastewater system upgrades. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." However, internal eliminations do not include water and sewage services provided to the Town Hall. Reimbursements are reported as reductions to expenses.

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

1. Summary of Significant Accounting Policies (continued)

Fund Types and Major Funds

The accounts of the Town are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds in either fund category.

The Town reports the following major governmental funds:

The General Fund - This is the primary operating fund of the Town. It accounts for all of the financial resources and the legally authorized activities of the Town except for those required to be accounted for in other specialized funds.

The Town reports the following major proprietary fund:

Water and Sewer Fund - This fund accounts for the operation of the Town's water and sewer utilities. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Budgetary Data - Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted, after public hearings, by passing of a resolution prior to the start of each fiscal year. Transfers of appropriations between functions require approval of the Mayor and Council. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures, except that the Town may use prior year surplus to cover budget shortfalls.

Cash and Cash Equivalents - Cash and Cash Equivalents may include demand deposits, money market accounts, funds held in the Maryland Local Government Investment Pool (MLGIP) and certificates of deposit with an initial maturity date of less than three months.

Cash - restricted - Consists of funds which are held for future reforestation projects in the Town.

Certificates of Deposits - Are recorded at cost plus accrued interest which approximates fair value.

Receivables - Receivables not expected to be collected within 60 days of year end will be reported as a deferred inflow of resources in the Balance Sheet - Governmental Funds, as they are not currently available to the Town. All receivables are reported at gross values. Allowances are reported when management has determined that collection of the receivable is not probable. Balances are continually reviewed by management and are deemed fully collectible. Therefore, no allowance for uncollectible accounts is deemed necessary.

Due from Other Governments - Receivables from other governments primarily consist of amounts arising from transfer payments and amounts due from grantors for specific programs and include highway user fees and income taxes collected and remitted to the Town by the State of Maryland. Of this amount, \$21,038 of income taxes and \$4,278 of highway user fees were not collected within 60 days of year end and accordingly, has been deferred in the general fund.

TOWN OF MILLINGTON

Notes to Financial Statements

June 30, 2020

1. Summary of Significant Accounting Policies (continued)

Property Taxes – Consist of real property taxes billed and collected on behalf of the Town by Kent and Queen Anne’s Counties which remit payment to the Town. Of this amount, \$7,417 was not collected within 60 days of year end and accordingly, has been deferred in the general fund.

Other – Consists of personal property taxes and other service charges billed by the Town. Amounts are recorded when billed, except that an amount is accrued for water and sewer services rendered but not yet billed, as of the close of the fiscal year. The accrued amount is based on actual billings made subsequent to year end. Of this amount, \$2,563 of other service charges were not collected within 60 days of year end and accordingly, has been deferred in the general fund.

Capital Assets and Depreciation - The Town’s property, buildings and facilities with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. All land is capitalized. Proprietary capital assets are also reported in their fund financial statements. The costs of normal maintenance and repairs which do not add to the asset value or materially extend useful lives are not capitalized. Donated capital assets received on or before June 15, 2015 are stated at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The Town has been exempted from retroactively reporting its infrastructure assets. However, all future construction or major improvements to the roads, bridges, sidewalks, drainage and lighting systems for the Town will be capitalized and depreciated in a manner consistent with current policies for capital assets in the governmental activities and proprietary funds.

Estimated useful lives for depreciable assets are as follows:

Infrastructure and improvements	15 - 30 years
Buildings and improvements	20 - 30 years
Machinery and equipment	5 - 10 years
Property, plant and equipment utilized in enterprise funds	5 - 40 years

Deferred Outflows and Inflows of Resources - A *deferred outflow 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/expenditure) until then. Likewise, a *deferred inflow 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.

Long-Term Obligations - In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statement of net position.

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

1. Summary of Significant Accounting Policies (continued)

Net Position –

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

Net Investment in Capital Assets

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted

This category represents the net position of the Town which has been restricted for a specific project or purpose by a third party. As of June 30, 2020, the Town's restricted net position consisted of \$7,716 whose purpose was restricted by the donor for reforestation in the Town and \$15,600 of impact fees for capital improvements of the water and sewer systems.

Unrestricted

This category represents the net position of the Town, which is not restricted for any project or other purpose by third parties.

Fund Balance –

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2020, the Town had nonspendable funds of \$202,729.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2020, balances classified as restricted consisted of \$7,716 of funds whose purpose was restricted by the donor for reforestation in the Town.

Committed

This category includes amounts constrained for a specific purpose by the Mayor and Council using its highest level of decision making authority, prior to year end. As of June 30, 2020, the Town committed \$23,500 for future capital projects.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2020, the Town did not have any balances to be reported in this category.

Unassigned

This category includes all funds which are not specifically classified as Nonspendable, Restricted, Committed or Assigned.

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

1. Summary of Significant Accounting Policies (continued)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

2. Cash, Cash Equivalents, and Certificates of Deposit

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash and Cash Equivalents" and "Cash – Restricted" and consists of demand deposits and funds held in the Maryland Local Government Investment Pool (MLGIP).

The Town is a participant in the MLGIP, which was established by the State of Maryland as an investment vehicle for short-term investment of funds by local municipalities. The MLGIP, under the control of the state treasurer, has been managed by a single financial institution. The MLGIP is operated in accordance with Rule 2a-7 (SEC-registered) of the Investment Company Act of 1940, as amended. The fair value is based on a share price of \$1.00 per share (Level 1). As of June 30, 2020, all pool holdings are in cash and cash equivalents.

Credit Risk - The Town has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland municipalities. This policy requires that Town funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2020, which was adopted to mitigate credit risk for the Town.

Interest Rate and Credit Risk – The Town manages interest rate and credit risk by investing primarily in short term holdings, including demand deposits, certificates of deposit and MLGIP.

Custodial Credit Risk – The Town manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted.

The Town also holds funds in a certificate of deposit with an initial maturity date of greater than three months. It has been included in the following analysis of deposits by level of risk, as it is fully insured by the FDIC.

Deposits by level of risk are:

	Carrying Amount	Bank Balance
Cash on hand	\$ 250	\$ - 0 -
FDIC Insured	60,010	73,330
Maryland Local Government Investment Pool	24,093	24,093
Total deposits	\$ 84,353	\$ 97,423

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

3. Capital Assets

Capital asset activity for the Town for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Nondepreciable				
Construction in progress	\$ 1,638	\$ - 0 -	\$ - 0 -	\$ 1,638
Land	497,050	9,600	- 0 -	506,650
Infrastructure & improvements	660,745	- 0 -	- 0 -	660,745
Buildings & improvements	77,411	- 0 -	- 0 -	77,411
Machinery & equipment	<u>66,091</u>	<u>12,000</u>	- 0 -	<u>78,091</u>
Total	<u>1,302,935</u>	<u>\$ 21,600</u>	<u>\$ - 0 -</u>	<u>1,324,535</u>
Less: Accumulated depreciation				
Infrastructure & improvements	274,980	\$ 34,569	\$ - 0 -	309,549
Buildings & improvements	47,817	3,037	- 0 -	50,854
Machinery & equipment	<u>49,142</u>	<u>2,786</u>	- 0 -	<u>51,928</u>
Total accumulated depreciation	<u>371,939</u>	<u>\$ 40,392</u>	<u>\$ - 0 -</u>	<u>412,331</u>
Governmental activities capital assets, net	<u>\$ 930,996</u>			<u>\$ 912,204</u>

During the year ended June 30, 2020, the Town was the recipient of donated property valued at \$9,600. Additionally, under the provisions of the Coronavirus Aid Relief and Economic Security Act, Kent County purchased and equipped laptops for Town Councilmember and employee use valued at \$12,000.

Depreciation expense was charged to governmental functions as follows:

General government	\$ 3,774
Parks and recreation	22,736
Public works	<u>13,882</u>
Total depreciation expense	<u>\$ 40,392</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Property, plant and equipment:				
Sewer system	\$ 3,360,463	\$ - 0 -	\$ - 0 -	\$ 3,360,463
Water system	4,068,775	11,605	15,465	4,064,915
Vehicles	<u>25,434</u>	- 0 -	- 0 -	<u>25,434</u>
Total	<u>7,454,672</u>	<u>\$ 11,605</u>	<u>\$ 15,465</u>	<u>7,450,812</u>
Less: accumulated depreciation				
Property, plant, and equipment:				
Utilities Plant	<u>3,462,894</u>	<u>\$ 229,167</u>	<u>\$ 15,465</u>	<u>3,676,596</u>
Business-type activities capital assets, net	<u>\$ 3,991,778</u>			<u>\$ 3,774,216</u>

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

3. Capital Assets (continued)

Depreciation expense was charged to business-type activities as follows:

Water system	\$	107,109
Sewer system		<u>122,058</u>
Total depreciation expense	\$	<u>229,167</u>

4. Long Term Obligations

General Obligation Bond: On September 29, 2005, the Town executed the Water System Improvements Bond of 2005 in accordance with Town Ordinance No. 2002-01. The principal amount of the Bond was \$1,395,200. The Bond bears interest at 4.125% per annum. Principal and interest payments of \$17,845 are due quarterly on March 27, June 27, September 27, and December 27, with the final installment due on September 27, 2045. Payments of principal and interest will be made from revenues received by the Town from operation of the water system. In the event such revenues are insufficient to pay the principal and interest, the Town may levy and collect ad valorem taxes on all real and tangible personal property sufficient to provide for such payments when due.

The Town's outstanding general obligation bond contains acceleration provisions that in the event of default the full amount outstanding including accrued interest may become due and payable immediately or the lender may take possession of the facility. Defaults would be triggered by events such as bankruptcy or failure to pay principal and interest when due.

The following is a summary of the general obligation bonds payable as of June 30, 2020:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Amount payable at beginning of year	\$ - 0 -	\$ 1,140,353
Advances	- 0 -	- 0 -
Principal retirements	<u>- 0 -</u>	<u>(24,165)</u>
Amount payable at end of year	<u>\$ - 0 -</u>	<u>\$ 1,116,188</u>

The annual debt service requirement for the above bond payable through maturity is as follows:

<u>Years Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 25,722	\$ 45,654	\$ 71,376
2022	26,799	44,577	71,376
2023	27,922	43,454	71,376
2024	29,091	42,285	71,376
2025	30,311	41,065	71,376
2026-2030	171,698	185,182	356,880
2031-2035	210,806	146,074	356,880
2036-2040	258,823	98,057	356,880
2041-2045	317,768	39,112	356,880
2046	<u>17,248</u>	<u>596</u>	<u>17,844</u>
	<u>\$ 1,116,188</u>	<u>\$ 686,056</u>	<u>\$ 1,802,244</u>

Total interest expense for the year ended June 30, 2020 included as direct function expense in the proprietary activities totaled \$47,216.

TOWN OF MILLINGTON

Notes to Financial Statements
June 30, 2020

5. Property Tax

Property taxes on real estate are recorded as receivables and attach as an enforceable lien on property on July 1, the date levied. The Kent and Queen Anne’s Counties Treasurers bill and collect property taxes for the Town. Taxes for the year ended June 30, 2020, were certified with the Counties during the preceding fiscal year. Semi-annual installment payments are mandatory for qualified properties unless the taxpayer chooses to pay in one installment. Qualified property is defined as "an owner-occupied principal residence". Under the semi-annual plan, one-half of the tax bill is due September 30 with the balance due on December 31. For all other properties, the bill is due in its entirety on September 30. After the due date, interest is charged on the delinquent portion. All delinquent taxes are turned over to their respective county for tax sale. Current year delinquent property taxes receivable represents unpaid taxes from the current year. Personal property taxes are ordinarily billed annually by the Town based on an assessment determined by the State of Maryland.

Property tax revenue in the governmental fund statement is accounted for using the modified accrual basis of accounting. Any collections on the 2019-2020 tax levy which was remitted to the Town within sixty days subsequent to June 30, 2020, are recorded as property tax revenues. Taxes not collected and remitted to the Town within sixty days subsequent to June 30, 2020 amounted to \$7,417. The tax rates for the fiscal year ended June 30, 2020 was \$0.28 and \$.70 per \$100 assessed value for real and personal property, respectively.

6. Tower Rental Lease Revenue

The Town has a lease agreement with Delmarva WiFi to install communication equipment on its water tower. Total lease income for the year ended June 30, 2020 was \$2,100. Under the terms of the agreement, the Town receives monthly rental income of \$350, with 5% annual increases. The initial lease term is for 5 years through May 2022 and then will renew for subsequent 5-year periods unless terminated with six months notice by either party. Future minimum lease revenues are as follows:

<u>Years Ending June 30,</u>	
2021	\$ 4,882
2022	<u>4,680</u>
Total	<u>\$ 9,562</u>

7. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Net interfund transfers between the general and water and sewer fund as of June 30, 2020 totaled \$16,485.

Long-term interfund loans are classified as "advances to/from other funds." These funds were primarily utilized by the utility fund to make capital improvements and support operations of the enterprise fund. Any residual balances outstanding between governmental activities and business-type activities are reported as "advances to (from) other funds." Total advances due to the general fund from the water and sewer fund as of June 30, 2020 totaled \$202,729.

TOWN OF MILLINGTON

Notes to Financial Statements June 30, 2020

8. Risk Management

The Town is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The Town purchases insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. During the year ended June 30, 2020, there was no significant reduction in insurance coverage. Settled claims from these risks have not exceed insurance coverage in any of the past three years. Insurance is provided through the Local Government Insurance Trust (the "Trust") and by commercial insurance. The Trust is a total risk and cost sharing plan for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfer from the Trust's capital and surplus accounts, the Trustees determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit. The Town's workers compensation insurance premium is adjusted retroactively based on the ultimate costs of the experience to date of a group of entities. The unemployment insurance premium rate is adjusted annually based on experience to date of the Town.

9. Commitments and Contingencies

In the normal course of operations, the Town receives grant funds from various State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

In March 2020, significant mitigation efforts began taking effect in the United States in an attempt to curtail the spread of the coronavirus (COVID-19) pandemic. Such efforts have included travel restrictions, business closures, and event cancellations. Capital markets have seen significant volatility in the wake of the pandemic and significant economic disruptions are likely to occur. In response, the Town has altered its operations by working remotely where possible. Management cannot reasonably estimate the related financial impact and duration of the situation at this time. However, the Town believes it has sufficient cash reserves to sustain operations in the event of continued disruption. Management intends to monitor the situation on an ongoing basis and to continue efforts to reduce its impact on the Town's operations and financial resources.

The Town had agreements with KCI Technologies to develop preliminary engineering reports related to the Town's water system and waste water treatment plant (WWTP) for future modifications or replacements, and environmental impacts and mitigations of said systems. Total costs of the services are not expected to exceed \$50,000 for the water system and \$29,700 for the WWTP. Actual costs incurred during the year ended June 30, 2020 were \$5,450 for the water system and \$8,112 for the WWTP.

In connection with the above referenced preliminary engineering reports, the Town has entered into grant agreements with the United States Department of Agriculture. The Town is expected to receive funding of \$30,000 for both the water system and the WWTP in reimbursement for costs expended. Subsequent to year end, the United States Department of Agriculture accepted the results of the water system study. The Town is still awaiting acceptance of the WWTP study.

In February 2018, the Town entered into a development agreement with Home Partnership of Cecil County, Inc. (a Maryland nonprofit corporation) in connection with the development, construction and financing of approximately 12 affordable senior housing units within the Town. The project is in the preliminary planning stages and estimated costs are approximately \$6,000,000. Actual costs incurred during the year ended June 30, 2020 were \$468.

TOWN OF MILLINGTON

Notes to Financial Statements June 30, 2020

10. Utility Service Discounts

The Town has an agreement with the community fire company wherein the Town does not charge the fire company for its water usage. The total amount of utility system usage forgiven for this organization for the year ended June 30, 2020 totaled \$1,354.

11. Environmental Concerns and Asset Retirement Obligations

The Town operates a sewer facility. During the year ended June 30, 2020, the Town was notified by the Maryland Department of the Environment (MDE) of violations and fines for sewer overflows. The Town had been in contact with MDE requesting a waiver of the fines. As of June 30, 2020, the Town has accrued \$5,734 the amount of fines payable should the waiver be denied.

The Town is currently reviewing options for future retirement of the Town's sewer facility. Accordingly, no liability in accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations* is reported in these financial statements for future retirement of the Town's sewer facility, as until the plan is completed and approved, estimated costs are not determinable.

12. Deficit of Major Enterprise Fund Net Position

The Water and Sewer System had a deficit in unrestricted net position of (\$140,770) as of June 30, 2020.

13. Adjustments Related to Prior Periods

During the year ended June 30, 2020, it was determined that certain invoices for services rendered to the Town during the year ended June 30, 2019 had not been accrued into accounts payable during the year ended June 30, 2019. Accordingly, the opening net position for business-type activities and enterprise fund net position was restated for the amount of the invoices of \$15,056, from \$2,779,020 to \$2,763,964.

14. Subsequent Events

In July 2020, the United States Department of Agriculture accepted the results of the preliminary engineering reports related to the Town's water system discussed in Note 9 and the Town submitted documentation for processing to receive the reimbursement grant funding.

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 29, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MILLINGTON

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2020

	Original	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property taxes	\$ 111,784	\$ 111,784	\$ 113,873	\$ 2,089
Income and other local taxes	53,500	53,500	66,438	12,938
Licenses and permits	10,350	10,350	9,963	(387)
Intergovernmental - State	6,240	6,240	17,240	11,000
Miscellaneous	265	265	2,891	2,626
TOTAL REVENUES	182,139	182,139	210,405	28,266
EXPENDITURES:				
General government	92,130	92,130	92,388	(258)
Public safety	3,875	3,875	2,399	1,476
Public works	50,655	50,655	51,768	(1,113)
Parks and recreation	6,600	6,600	6,579	21
TOTAL EXPENDITURES	153,260	153,260	153,134	126
EXCESS OF REVENUES OVER EXPENDITURES	\$ 28,879	\$ 28,879	\$ 57,271	\$ 28,392

TOWN OF MILLINGTON

Notes to Required Supplementary Information June 30, 2020

Budgetary Information

Budgetary procedures established for the Town are as follows. At least thirty-two days before the beginning of the fiscal year, the Clerk-Treasurer submits to the Mayor and Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted after one week notice is given in a local newspaper. Prior to July 1, the budget is legally enacted through passage of a resolution by the Mayor and Town Council. Any transfer of funds between major appropriations must be approved by the Mayor and Town Council. Appropriations which are not expended lapse at the end of the fiscal year. Expenditures may not legally exceed appropriations for any fund for which a legally adopted budget is prepared at the fund level. The budget may only be amended with the approval of the Mayor and Town Council. This applies to both the fund and line item level. On May 14, 2019, the Mayor and Town Council adopted and approved Resolution 2019-04, which established the original budget for Fiscal Year 2020.

The Town does not enact a specific budget category for capital outlays. As such, they are incorporated in the general classification of expenditure.

The legal level of budgetary control is at the level of general classification of expenditure. The Town exceeded its budgeted expenditures during the year ended June 30, 2020 as follows:

General Government	\$	258
Public Works		1,113

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Mayor and Council
Town of Millington

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 Town of Millington (Town), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Finding 2020 – 001 and Finding 2020 – 004.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Finding 2020 – 002, and Finding 2020 – 003, and Finding 2020 – 005.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards (Continued)*

Compliance and Other Matters

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

Town of Millington's Response to Findings

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Millington's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Wojcik, Cronin & Serra, LLC

October 29, 2020
Hunt Valley, MD

TOWN OF MILLINGTON

Schedule of Findings and Responses
June 30, 2019

Finding 2020 – 001: Material Misstatements (Adjustments) to the Financial Statements

Criteria: The Governmental Accounting Standards Board (“GASB”) is responsible for establishing accounting principles generally accepted in the United States of America (“GAAP”) for state and local governments. GAAP requires the use of the economic resources measurement focus and the accrual basis of accounting, which reflects all short and long-term assets and liabilities of the Town, to be utilized for the government-wide and proprietary fund financial statements. GAAP also requires the use of the current financial resources measurement focus and the modified accrual basis of accounting for governmental funds.

Condition: During the audit, we identified material adjustments to the financial statements for the period under audit that were not initially identified by internal controls. Specifically, we proposed adjustments to accounts receivable and various revenue, long-term obligations and interest expense, and accumulated depreciation and depreciation expense.

Cause: The Town maintains its books primarily on a cash basis as it is a small town with limited staff and requests assistance from its auditors to assist in preparing its financial statements including proposing adjustments required for accrual basis financial statements.

Effect: Balances of assets, liabilities, revenues, and expenses were improperly reported prior to adjustments.

Recommendation: We understand the Town has done a cost benefit analysis and has determined it would not be cost effective to expand staff and will continue to rely on the auditors’ assistance to prepare adjustments at year end.

Management’s Response: We are in agreement with the finding. We review and approve all adjustments brought to our attention during the audit process and they were posted to the Town’s records and are incorporated in the financial statements and audit report presented for June 30, 2020. We have designated the Town Manager, who has suitable skill, knowledge and experience to approve those adjustments.

TOWN OF MILLINGTON

Schedule of Findings and Responses
June 30, 2019

Finding 2020 – 002: Monitoring Segregation of Duties and Management Override

Criteria: Adequate segregation of duties is required to reduce the risk of errors and irregularities.

Condition: The Town has limited staff which results in one individual handling multiple aspects of a transaction.

Cause: This is an inherent problem in municipalities similar in size to the Town of Millington.

Effect: The potential risk for errors, irregularities or overriding of processes is higher when limited staff is involved in the process.

Recommendation: We understand that the Town has done a cost benefit analysis and has determined it would not be cost effective to expand staff. The Town has implemented policies to help mitigate this inherent risk. We recommend that continued close supervision by the Mayor and Council, such as monthly review and approval of receipts and disbursements, be continued to prevent and detect errors and irregularities. In addition, this review should be documented in the Town's files.

Management's Response: We are in agreement with the finding. Every effort is made to try and ensure tasks are reviewed by the Mayor and Council on a regular basis.

Finding 2020 - 003: Auditor Assistance with Preparation of the Financial Statements

Criteria: The preparation and fair presentation of the financial statements, including the related notes, is the responsibility of management and the Town.

Condition: The Town relies on the external auditor to assist in the preparation of the financial statements and related notes.

Cause: This is a small town with limited staff. This is a common finding among municipalities of similar size.

Effect: Potential material misstatements could go undetected in the financial statements and related disclosures for which management and the Town is ultimately responsible.

Recommendation: We believe the Town has an individual with sufficient skill, knowledge and experience to perform a detailed review of the financial statements. We recommend that the Town obtain an annual detailed reporting and disclosure checklist applicable to governmental entities to assist in their review of the auditor prepared financial statements.

Management's Response: We are in agreement with the finding. We have designated the Town Manager, who has suitable skill, knowledge and experience to review the financial statements. As part of our review process, we utilize a disclosure checklist provided by our auditor.

TOWN OF MILLINGTON

Schedule of Findings and Responses June 30, 2019

Finding 2020 - 004: Material Adjustment Related to Prior Periods

Criteria: The Governmental Accounting Standards Board ("GASB") is responsible for establishing accounting principles generally accepted in the United States of America ("GAAP") for state and local governments. GAAP requires the use of the economic resources measurement focus and the accrual basis of accounting, which reflects all short and long-term assets and liabilities of the Town, to be utilized for the government-wide and proprietary fund financial statements.

Condition: During our audit, it was determined that invoices not processed until several months after year end were not accrued into accounts payable as of June 30, 2019.

Cause: The Town maintains its books primarily on a cash basis and was several months behind on certain bills. In addition, a significant invoice for services provided for the year ended June 30, 2019 were not received until after the audit had been issued. As such these invoices had not been processed at the time of the audit and were not detected as part of the recommended adjusting entry process.

Effect: Balances of business-type activities and enterprise fund accounts payable were understated by the amounts of the invoices. Opening net position of business-type activities and the enterprise fund was decreased by \$15,056.

Recommendation: We would advise management to be mindful of service periods on invoices and all invoices or estimates of charges for invoices not received to be included in accrued expenses at year end.

Management's Response: We are in agreement with the finding.

Finding 2020 – 005: Errors in Service Charge Billings

Criteria: Service charges should be billed based upon published rates for metered usage.

Condition: During our audit, we noted one instance in which a customer was not charged the stated base service fee for the month's service. Additionally, we noted one month in which users were over charged on excess usage by \$2 per thousand gallons.

Cause: The errors appear to be the result of human data entry error into the QuickBooks Accounts Receivable module.

Effect: The net effect of the errors resulted in service fee errors during the year.

Recommendation: We would advise management to be mindful when entering rates and fees into the billing system. As part of the Town's long-term system replacement and upgrade plan, we would recommend the Town invest in an automated utility billing software to reduce the opportunity for human data entry errors and speed up the billing process.

Management's Response: We are in agreement with the finding. Due to the immaterial effect on individual bills, the Town would not be issuing credits or corrected billings.