

**The Commissioners of  
Thurmont, Maryland**

**Audited Financial Statements**

**For The Fiscal Year Ended  
June 30, 2010**

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**Independent Auditor's Report**

The Commissioners  
The Commissioners of Thurmont, Maryland  
Thurmont, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Commissioners of Thurmont, Maryland, as of and for the year ended June 30, 2010, which collectively comprise The Commissioners of Thurmont, Maryland's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Commissioners of Thurmont, Maryland's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Commissioners of Thurmont, Maryland as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2010 on our consideration of The Commissioners of Thurmont, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the required supplementary information and the supplemental information as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Commissioners of Thurmont, Maryland's basic financial statements. The information included in the statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statistical section has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*McLean, Koehler, Sparks & Hammond*

December 31, 2010  
Frederick, Maryland

**THE COMMISSIONERS OF THURMONT, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2010**

This discussion and analysis of the Town of Thurmont's financial performance provides an overview of the financial activities of the Town for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

**FINANCIAL HIGHLIGHTS**

1. The assets of the Town and its business-type activities exceeded its liabilities at the close of the most recent fiscal year by \$21,130,846. Of this amount, \$4,056,059 may be used to meet the Town's ongoing obligations to citizens and creditors.
2. The Town's total net assets decreased by \$293,046.
3. As of the close of the current fiscal year, the Town's governmental activities reported balances of \$7,110,855, a decrease of \$131,677 in comparison to the prior year's governmental net assets of \$7,242,532. Unrestricted net assets of \$4,827,590 are considered unreserved and available for spending at the discretion of the Town.
4. The Town's total debt decreased by \$560,382. The town did not receive any new bonds and made all scheduled principal payments.

**General Fund Budgetary Highlights**

The budgetary comparison schedule can be found on page 13 of this report. The adopted General Fund budget for fiscal year 2010 included revenues of \$2,999,980, expenditures of \$2,973,115, and capital outlay of \$279,600 for capital additions and improvements. The resulting budgeted deficit of \$252,735 was an increase of \$61,170 from the 2009 fiscal year deficit.

There were no budget amendments made during the 2010 fiscal year. The General Fund budget complied with financial policies approved by the Commissioners of Thurmont. Actual results produced \$260,419 more than anticipated on the modified accrual basis of accounting. Revenues were \$234,065 less than budgeted primarily due to decreases in revenue earned from taxes, interest and charges for services. Expenditures were \$592,092 less than budgeted due primarily to cost savings in the general government area. Debt service and capital outlay payments resulted in a net \$97,608 negative variance between actual and budgeted results.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of 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 and a statistical section in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors to consider are discussed on page vi.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the Town 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 Town include general government, public safety, public works, parks and recreation. The business-type activities of the Town include water, sanitary sewer, and electric utility operations.

The government-wide financial statements can be found on page 3 - 4 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 Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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 inflow 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 on 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, readers may better understand the long-term effect 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 maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects fund.

The Town adopts an annual appropriated budget for its general and propriety funds. A budgetary comparison statement for the general fund has been provided to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 5 – 7 of this report.

*Proprietary funds.* The Town maintains three types of proprietary funds or enterprise funds. (These funds are also referred to as business-type funds throughout the financial statements.) Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water, sanitary sewer, and electric distribution operations.

Proprietary funds provide the same type of information as presented in the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 8 – 10 of this report.

*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 14 – 36 of this report.

*Other information.* The statement on page v of this report provides additional information about the Town's cash receipts and disbursements for the year and selected comparative information.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Thurmont, assets exceeded liabilities by \$21,130,846 for the governmental activities at the close of the most recent fiscal year.

By far the largest portion of the Town's governmental net assets reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress), less any

related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following analysis focuses on the net assets and changes in net assets of the Town's governmental and business-type activities.

**CONDENSED STATEMENT OF NET ASSETS  
AS OF JUNE 30,**

	2010			2009		
	Governmental Activities	Business Type Activities	Total Government	Governmental Activities	Business Type Activities	Total Government
<b>ASSETS</b>						
Current Assets	\$ 4,965,306	\$ 198,742	\$ 5,164,048	\$ 4,762,163	\$ 638,738	\$ 5,400,901
Noncurrent Assets	43,244	151,096	194,340	282,568	160,260	442,828
Capital Assets	<u>4,018,539</u>	<u>21,475,638</u>	<u>25,494,177</u>	<u>4,269,051</u>	<u>21,562,618</u>	<u>25,831,669</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,027,089</u>	<u>\$ 21,825,476</u>	<u>\$ 30,852,565</u>	<u>\$ 9,313,782</u>	<u>\$ 22,361,616</u>	<u>\$ 31,675,398</u>
<b>LIABILITIES</b>						
Long-Term Debt	\$ 1,736,034	\$ 6,684,116	\$ 8,420,150	\$ 1,821,629	\$ 7,158,903	\$ 8,980,532
Other Liabilities	<u>180,200</u>	<u>1,121,369</u>	<u>1,301,569</u>	<u>249,621</u>	<u>1,021,353</u>	<u>1,270,974</u>
<b>TOTAL LIABILITIES</b>	<u>1,916,234</u>	<u>7,805,485</u>	<u>9,721,719</u>	<u>2,071,250</u>	<u>8,180,256</u>	<u>10,251,506</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	2,283,265	14,791,522	17,074,787	2,448,941	14,403,715	16,852,656
Unrestricted	<u>4,827,590</u>	<u>(771,531)</u>	<u>4,056,059</u>	<u>4,793,591</u>	<u>(222,355)</u>	<u>4,571,236</u>
<b>TOTAL NET ASSETS</b>	<u>7,110,855</u>	<u>14,019,991</u>	<u>21,130,846</u>	<u>7,242,532</u>	<u>14,181,360</u>	<u>21,423,892</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,027,089</u>	<u>\$ 21,825,476</u>	<u>\$ 30,852,565</u>	<u>\$ 9,313,782</u>	<u>\$ 22,361,616</u>	<u>\$ 31,675,398</u>

The Town of Thurmont has sufficient funds to meet requirements for cash outflows for the next fiscal year as well as capital improvements.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets in the governmental activities. The business-type activities have negative balances in the unrestricted net assets.

## CONDENSED STATEMENT OF CHANGES IN NET ASSETS

For the years ended June 30,

	2010			2009		
	Governmental	Business	Total	Governmental	Business	Total
	Activities	Type Activities	Government	Activities	Type Activities	Government
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 160,414	\$ 10,019,436	\$ 10,179,850	\$ 239,332	\$ 10,013,565	\$ 10,252,897
Operating Grants	523,470	-	523,470	826,740	-	826,740
Capital Contributions	-	2,500	2,500	-	-	-
<b>General Revenues</b>						
Property Taxes	1,529,835	-	1,529,835	1,532,360	-	1,532,360
Income Taxes	533,068	-	533,068	561,655	-	561,655
Gasoline and Motor Taxes	38,806	-	38,806	341,848	-	341,848
Other Taxes	5,656	-	5,656	41,924	-	41,924
Income from Contract Work	-	30,392	30,392	-	59,444	59,444
Interest Income	7,576	25,828	33,404	32,887	38,896	71,783
Other General Revenues	-	129,807	129,807	-	55,463	55,463
<b>Total Revenues</b>	<u>2,798,825</u>	<u>10,207,963</u>	<u>13,006,788</u>	<u>3,576,746</u>	<u>10,167,368</u>	<u>13,744,114</u>
<b>Program Expenses</b>						
General government	875,620	-	875,620	900,295	-	900,295
Public safety	702,210	-	702,210	752,144	-	752,144
Public works	361,323	-	361,323	418,504	-	418,504
Highways and streets	324,041	-	324,041	235,547	-	235,547
Recreation and parks	147,598	-	147,598	139,265	-	139,265
Depreciation	445,427	-	445,427	501,511	-	501,511
Interest on long term debt	74,283	-	74,283	78,669	-	78,669
Sewer	-	1,343,069	1,343,069	-	1,218,943	1,218,943
Water	-	801,431	801,431	-	834,880	834,880
Electric	-	8,224,832	8,224,832	-	8,262,950	8,262,950
<b>Total Program Expenses</b>	<u>2,930,502</u>	<u>10,369,332</u>	<u>13,299,834</u>	<u>3,025,935</u>	<u>10,316,773</u>	<u>13,342,708</u>
<b>Change in Net Assets</b>	<u>\$ (131,677)</u>	<u>\$ (161,369)</u>	<u>\$ (293,046)</u>	<u>\$ 550,811</u>	<u>\$ (149,405)</u>	<u>\$ 401,406</u>

### **Commissioners of Thurmont's Changes in Net Assets**

**Governmental activities.** Governmental activities decreased the Town's net assets by \$131,677. Key elements of this decrease are as follows:

1. Investment in the amount of \$148,366 for infrastructure and equipment improvements.
2. Operating grants received of \$523,470.
3. General revenues from various types of taxes of \$2,107,365.
4. Governmental expenses of \$2,930,502.

Total revenues of the governmental activities decreased by \$777,921. Property tax revenues decreased by \$2,525 due to a slight decrease in the population growth for the Town and the decrease in the property assessment rate. Operating grants decreased \$303,270 due to a decrease in funds the Town received. Gasoline and motor tax revenue decreased \$303,042 due to the state scaling back on its funding. Interest income decreased \$25,311 due to decreases in interest rates throughout the year.

Total expenses decreased by \$95,433 primarily due to decreases in general government expense, public works, depreciation expense, and public safety.

**Business-type activities.** Business-type activities decreased the Town's net assets by \$161,369. Key elements of this decrease are as follows:

1. Net interest expense of \$265,557.
2. Charges for services of \$10,179,635.
3. Business-related expenses of \$10,103,775.

The business-type activities produced \$10,207,963 in total operating revenues, an amount that is \$40,595 more than fiscal 2009 revenues. Charges for services were \$56,210 less than the prior year. Charges for services increased by \$17,553 in the sewer activities. Charges for services decreased by \$36,649 in electric activities and \$37,114 in the water activities. Operating expenses increased by \$52,559 in the business-type activities. Operating expense increased by \$124,126 in the sewer activities. Operating expenses decreased by \$33,449 in the water activities and \$38,118 in the electric activities.

### **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town’s governmental fund reported an ending fund balance of \$4,890,097, an increase of \$7,684 in comparison with the prior year balance of \$4,882,413. The increase in the governmental fund is primarily due to the fact that cash funds spent for capital assets decreased. Capital assets are not included within the governmental fund balance. All of this balance is unreserved fund balance, which is available for spending at the government’s discretion.

**Proprietary funds.** The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The fund balances of the proprietary funds are the same on the fund basis as they are in the government-wide financial statements.

Unrestricted net assets of the proprietary funds at the end of the year amounted to a \$771,531 deficit. The proprietary funds had a decrease in net assets for the year of \$161,369. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town’s business-type activities.

**Capital Asset and Debt Administration**

**Capital assets.** The Town’s investment in capital assets for its governmental and business type activities as of June 30, 2010, amounts to \$25,494,177 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, sewer, and electric system improvements, machinery and equipment, park facilities, and street improvements. The total decrease in the Town’s investment in net capital assets for the current fiscal year was \$337,492.

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

	<u>Project Amount</u>
Water System Improvements	\$ 64,324
Sewer System Improvements	986,206
General Capital Improvements	194,915
Electric System Improvements	47,046

Additional information on the Town’s capital assets can be found in Note 4 of the accompanying financial statements.

**Town of Thurmont's Outstanding Debt at June 30, 2010.**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Loans and leases outstanding	\$ 1,736,034	\$ -	\$ 1,736,034
General obligation bonds	<u>-</u>	<u>6,684,116</u>	<u>6,684,116</u>
Total Debt	<u>\$ 1,736,034</u>	<u>\$ 6,684,116</u>	<u>\$ 8,420,150</u>

The Town's total debt decreased by \$560,382 (or 6.24%) during the current fiscal year. Additional information on the long-term debt of the Town can be found in the notes of the accompanying financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Town's budget for the 2010-2011 fiscal year:

1. Population will remain stable during the year.
2. The current tax rate will remain stable at \$.26 per \$100 of assessed valuation.

During the 2010-2011 fiscal year, the Town of Thurmont appropriated funds to finance various capital improvements.

1. General capital improvements	\$ 193,203
2. Water improvements	278,700
3. Sewer improvements	531,300
4. Electric improvements	-

**Request for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, P.O. Box 17, Thurmont, MD 21788.

# The Commissioners of Thurmont, Maryland

## Statement of Net Assets

June 30, 2010

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 2,891,569	\$ 490,792	\$ 3,382,361
Restricted cash	318,370	411,648	730,018
Net receivables	10,897	861,456	872,353
Due (to) from other funds	1,744,470	(1,744,470)	-
Inventories	-	179,316	179,316
<b>Total current assets</b>	<b>4,965,306</b>	<b>198,742</b>	<b>5,164,048</b>
Noncurrent assets:			
Due from other governments	43,244	-	43,244
Net receivables	-	36,950	36,950
Net capital assets	4,018,539	21,475,638	25,494,177
Unamortized bond expense	-	114,146	114,146
<b>Total Assets</b>	<b>\$ 9,027,089</b>	<b>\$ 21,825,476</b>	<b>\$ 30,852,565</b>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 104,302	\$ 960,688	\$ 1,064,990
Bond interest payable	11,526	45,739	57,265
Customers' and developers' deposits	63,872	27,682	91,554
Deferred revenue	500	87,260	87,760
<b>Total current liabilities</b>	<b>180,200</b>	<b>1,121,369</b>	<b>1,301,569</b>
Noncurrent liabilities:			
Bonds and notes due within one year	112,441	554,388	666,829
Bonds and notes due in more than one year	1,579,167	6,129,728	7,708,895
Capital lease payable due within one year	21,472	-	21,472
Capital lease payable due in more than one year	22,954	-	22,954
<b>Total Liabilities</b>	<b>1,916,234</b>	<b>7,805,485</b>	<b>9,721,719</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	2,283,265	14,791,522	17,074,787
Unrestricted	4,827,590	(771,531)	4,056,059
<b>Total Net Assets</b>	<b>7,110,855</b>	<b>14,019,991</b>	<b>21,130,846</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,027,089</b>	<b>\$ 21,825,476</b>	<b>\$ 30,852,565</b>

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

**The Commissioners of Thurmont, Maryland**

**Statement of Activities**

For the year ended June 30, 2010

Functions/Programs	Expenses	Program Services			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Contributions			
Primary government							
Governmental activities:							
General government	\$ 884,358	\$ 16,048	\$ 458,659	\$ -	\$ (409,651)	\$ -	\$ (409,651)
Public safety	842,923	-	43,886	-	(799,037)	-	(799,037)
Public works	436,832	144,366	-	-	(292,466)	-	(292,466)
Highways and streets	506,874	-	-	-	(506,874)	-	(506,874)
Recreation and parks	185,232	-	20,925	-	(164,307)	-	(164,307)
Interest on long-term debt	74,283	-	-	-	(74,283)	-	(74,283)
Total governmental activities	<u>2,930,502</u>	<u>160,414</u>	<u>523,470</u>	<u>-</u>	<u>(2,246,618)</u>	<u>-</u>	<u>(2,246,618)</u>
Business-type activities:							
Sewer	1,343,069	1,122,052	107,373	2,500	-	(111,144)	(111,144)
Water	801,431	863,372	-	-	-	61,941	61,941
Electric	8,224,832	8,086,838	-	-	-	(137,994)	(137,994)
Total business-type activities	<u>10,369,332</u>	<u>10,072,262</u>	<u>107,373</u>	<u>2,500</u>	<u>-</u>	<u>(187,197)</u>	<u>(187,197)</u>
Total primary government	<u>\$ 13,299,834</u>	<u>\$ 10,232,676</u>	<u>\$ 630,843</u>	<u>\$ 2,500</u>	<u>\$ (2,246,618)</u>	<u>\$ (187,197)</u>	<u>\$ (2,433,815)</u>
General revenues:							
Taxes:							
Income taxes					\$ 533,068	\$ -	\$ 533,068
Property taxes					1,529,835	-	1,529,835
Gasoline and motor taxes					38,806	-	38,806
Other taxes					5,656	-	5,656
Interest and investment earnings					<u>7,576</u>	<u>25,828</u>	<u>33,404</u>
Total general revenues and transfers					<u>2,114,941</u>	<u>25,828</u>	<u>2,140,769</u>
Change in net assets					(131,677)	(161,369)	(293,046)
Net assets, beginning of year					<u>7,242,532</u>	<u>14,181,360</u>	<u>21,423,892</u>
Net assets, end of year					<u>\$ 7,110,855</u>	<u>\$ 14,019,991</u>	<u>\$ 21,130,846</u>

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

**The Commissioners of Thurmont, Maryland**  
**Balance Sheet - Governmental Fund**

June 30, 2010

	<u>General Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	2,891,569
Taxes receivable	10,897
Due from proprietary funds	1,744,470
Due from other governments	43,244
Restricted cash	<u>318,370</u>
<b>Total Assets</b>	<u><u>\$ 5,008,550</u></u>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	54,581
Customer and developer deposits	<u>63,872</u>
Total liabilities	<u>118,453</u>
<b>Fund Balances:</b>	
Unrestricted	<u>4,890,097</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 5,008,550</u></u>
<b>Total Fund Balances - Governmental Fund</b>	<u>\$ 4,890,097</u>
Amounts reported for governmental activities in the government-wide statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,018,539
Adjust deferred revenues to record revenue on an accrual basis	<u>(500)</u>
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Note payable	\$ (760)
Capital lease payable	(44,426)
Accrued compensated absences	(49,721)
Long-term debt	<u>(1,702,374)</u>
	<u>(1,797,281)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 7,110,855</u></u>

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

# The Commissioners of Thurmont, Maryland

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund

For the year ended June 30, 2010

	General Fund
<b>Revenues:</b>	
Taxes	\$ 2,107,365
Intergovernmental	523,470
Charges for services	144,366
Fines, licenses and permits	16,048
Interest income	<u>7,576</u>
Total revenues	<u>2,798,825</u>
<b>Expenditures:</b>	
Current:	
General government	878,761
Public safety	702,210
Public works	361,323
Highways and streets	324,041
Recreation and parks	<u>147,598</u>
Total current expenditures	<u>2,413,933</u>
Debt service:	
Principal	154,559
Interest	<u>74,283</u>
Total debt service expense	<u>228,842</u>
Capital outlay	<u>148,366</u>
Total expenditures	<u>2,791,141</u>
<b>Excess of revenues over expenditures</b>	7,684
Fund balance, beginning of year	<u>4,882,413</u>
<b>Fund balance, end of year</b>	<u>\$ 4,890,097</u>

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

# The Commissioners of Thurmont, Maryland

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund

For the year ended June 30, 2010

	General Fund
<b>Change in Net Assets of Governmental Activities</b>	\$ (131,677)
<p>Amounts reported for governmental activities in the government-wide statement of activities are different due to the following:</p>	
<p>Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:</p>	
Capital asset purchases capitalized	(148,366)
Depreciation expense	445,427
	<u>297,061</u>
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the government-wide statement of assets.	(154,559)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and are not reported as expenditures in the governmental funds.	(2,410)
Bond interest payable	<u>(731)</u>
<b>Net change in Fund Balance - Governmental Fund</b>	<u><u>\$ 7,684</u></u>

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

# The Commissioners of Thurmont, Maryland

## Statement of Net Assets - Proprietary Funds

June 30, 2010

	Business - Type Funds			
	Sewer	Water	Electric	Total
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	490,792	\$ 490,792
Restricted cash	219,429	118,402	73,817	411,648
Net receivables	70,760	12,589	778,107	861,456
Inventories	448	27,167	151,701	179,316
Total current assets	290,637	158,158	1,494,417	1,943,212
Noncurrent assets:				
Unamortized bond expense	18,603	13,569	81,974	114,146
Net receivables	36,950	-	-	36,950
Net capital assets	9,759,074	6,231,054	5,485,510	21,475,638
<b>Total Assets</b>	<b>\$ 10,105,264</b>	<b>\$ 6,402,781</b>	<b>\$ 7,061,901</b>	<b>\$ 23,569,946</b>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 295,494	\$ 18,333	\$ 646,861	\$ 960,688
Due to governmental fund	1,347,424	397,046	-	1,744,470
Customers' and developers' deposits payable from restricted assets	-	6,865	20,817	27,682
Bonds and notes payable - current portion	262,421	173,467	118,500	554,388
Bond interest payable	20,105	17,921	7,713	45,739
Deferred revenue	-	-	87,260	87,260
Total current liabilities	1,925,444	613,632	881,151	3,420,227
Noncurrent liabilities:				
Bonds and notes due in more than one year	1,913,271	1,745,357	2,471,100	6,129,728
<b>Total Liabilities</b>	<b>3,838,715</b>	<b>2,358,989</b>	<b>3,352,251</b>	<b>9,549,955</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	7,583,382	4,312,230	2,895,910	14,791,522
Unrestricted	(1,316,833)	(268,438)	813,740	(771,531)
<b>Total Net Assets</b>	<b>6,266,549</b>	<b>4,043,792</b>	<b>3,709,650</b>	<b>14,019,991</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 10,105,264</b>	<b>\$ 6,402,781</b>	<b>\$ 7,061,901</b>	<b>\$ 23,569,946</b>

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

**The Commissioners of Thurmont, Maryland**

**Statement of Revenues, Expenses and Changes in Net Assets -  
Proprietary Funds**

For the year ended June 30, 2010

	Business - Type Funds			
	Sewer	Water	Electric	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 1,119,187	\$ 835,845	\$ 8,064,404	\$ 10,019,436
Contract work	2,865	27,527	44	30,436
Miscellaneous	107,373	-	22,390	129,763
Total operating revenues	<u>1,229,425</u>	<u>863,372</u>	<u>8,086,838</u>	<u>10,179,635</u>
<b>Operating Expenses:</b>				
Purchased power	-	-	6,638,338	6,638,338
System maintenance	400,045	344,806	340,178	1,085,029
Depreciation and amortization	726,822	182,440	284,458	1,193,720
General and administrative	145,711	192,857	848,120	1,186,688
Total operating expenses	<u>1,272,578</u>	<u>720,103</u>	<u>8,111,094</u>	<u>10,103,775</u>
<b>Operating (loss) income</b>	<u>(43,153)</u>	<u>143,269</u>	<u>(24,256)</u>	<u>75,860</u>
<b>Non-operating Revenues (Expenses):</b>				
Interest income	13,887	8,583	3,358	25,828
Interest expense	(70,491)	(81,328)	(113,738)	(265,557)
Net non-operating expenses	<u>(56,604)</u>	<u>(72,745)</u>	<u>(110,380)</u>	<u>(239,729)</u>
<b>Capital contributions</b>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
<b>Change in net assets</b>	(97,257)	70,524	(134,636)	(161,369)
Net assets, beginning of year	<u>6,363,806</u>	<u>3,973,268</u>	<u>3,844,286</u>	<u>14,181,360</u>
<b>Net assets, end of year</b>	<u>\$ 6,266,549</u>	<u>\$ 4,043,792</u>	<u>\$ 3,709,650</u>	<u>\$ 14,019,991</u>

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

## The Commissioners of Thurmont, Maryland

### Statement of Cash Flows - Proprietary Funds

For the year ended June 30, 2010

	Business - Type Funds			
	Sewer	Water	Electric	Total
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 1,196,682	\$ 871,273	\$ 8,054,557	\$ 10,122,512
Cash paid to suppliers	(205,167)	(351,171)	(7,431,679)	(7,988,017)
Cash paid to employees for salaries	(245,421)	(201,388)	(411,385)	(858,194)
Cash received from other funds	-	-	-	-
Net cash provided by operating activities	<u>746,094</u>	<u>318,714</u>	<u>211,493</u>	<u>1,276,301</u>
<b>Cash flows from capital and related financing activities:</b>				
Proceeds from bonds	62,607	-	-	62,607
Capital contributions	2,500	-	-	2,500
Purchases of capital assets	(986,206)	(64,324)	(47,046)	(1,097,576)
Principal paid on bonds and notes	(254,073)	(166,821)	(116,500)	(537,394)
Interest paid on bonds and notes	(73,567)	(82,887)	(114,042)	(270,496)
Net cash used in capital and related financing activities	<u>(1,248,739)</u>	<u>(314,032)</u>	<u>(277,588)</u>	<u>(1,840,359)</u>
<b>Cash flows from investing activities -</b>				
Interest and dividends	<u>13,887</u>	<u>8,583</u>	<u>3,358</u>	<u>25,828</u>
Net (decrease) increase in cash and cash equivalents	(488,758)	13,265	(62,737)	(538,230)
Cash and cash equivalents, beginning of year	<u>708,187</u>	<u>105,137</u>	<u>627,346</u>	<u>1,440,670</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 219,429</u>	<u>\$ 118,402</u>	<u>\$ 564,609</u>	<u>\$ 902,440</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ (43,153)	\$ 143,269	\$ (24,256)	\$ 75,860
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization expense	726,822	182,440	284,458	1,193,720
Bad debt expense	-	-	2,083	2,083
Changes in assets and liabilities:				
Receivables - net of allowances	(32,743)	7,901	(34,679)	(59,521)
Inventories	38	(3,270)	(37,564)	(40,796)
Accounts and other payables	128,207	1,938	36,560	166,705
Accrued expenses	(33,077)	(13,564)	(15,424)	(62,065)
Deferred revenue	-	-	315	315
<b>Net cash provided by operating activities</b>	<u>\$ 746,094</u>	<u>\$ 318,714</u>	<u>\$ 211,493</u>	<u>\$ 1,276,301</u>

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

**The Commissioners of Thurmont, Maryland**

**Statement of Net Assets - Fiduciary Fund**

June 30, 2010

	<u>Pension Trust</u>
<b>Assets - MetLife contract (to be transferred to Maryland State Retirement and Pension System)</b>	<u>\$ 1,992,264</u>
<b>Net Assets - Held in trust for pension benefits</b>	<u>\$ 1,992,264</u>

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

**The Commissioners of Thurmont, Maryland**

**Statement of Changes in Net Assets - Fiduciary Fund**

For the year ended June 30, 2010

	<u>Pension Trust</u>
<b>Additions:</b>	
Contributions - employer	\$ -
Withdrawals	(31,965)
Net appreciation in the fair value of investments	<u>57,786</u>
Total additions	<u>25,821</u>
<b>Change in net assets</b>	25,821
Net assets, beginning	<u>1,966,443</u>
Net assets, ending	<u><u>\$ 1,992,264</u></u>

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

**The Commissioners of Thurmont, Maryland**

**Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual - Governmental Fund - General Fund  
(Non-GAAP Budgetary Basis)**

For the year ended June 30, 2010

	<b>Budgetary Basis Budget</b>	<b>Modified Accrual Actual</b>	<b>Variance</b>
<b>Revenues:</b>			
Taxes	\$ 2,325,070	\$ 2,107,365	\$ (217,705)
Intergovernmental	543,660	523,470	(20,190)
Interest earned	30,000	7,576	(22,424)
Charges for services	87,650	144,366	56,716
Licenses and permits	10,500	16,048	5,548
Miscellaneous	3,100	-	(3,100)
Total revenues	<u>2,999,980</u>	<u>2,798,825</u>	<u>(201,155)</u>
<b>Expenditures:</b>			
Current:			
General government	1,378,775	878,761	500,014
Public safety	719,840	702,210	17,630
Public works	438,165	361,323	76,842
Highways and streets	300,450	324,041	(23,591)
Recreation and parks	135,885	147,598	(11,713)
Total current expenditures	<u>2,973,115</u>	<u>2,413,933</u>	<u>559,182</u>
Debt service:			
Principal	-	154,559	(154,559)
Interest	-	74,283	(74,283)
Total debt service expense	<u>-</u>	<u>228,842</u>	<u>(228,842)</u>
Capital outlay	<u>279,600</u>	<u>148,366</u>	<u>131,234</u>
Total expenditures	<u>3,252,715</u>	<u>2,791,141</u>	<u>461,574</u>
<b>(Deficit) excess of revenues over expenditures</b>	<u>\$ (252,735)</u>	<u>\$ 7,684</u>	<u>\$ 260,419</u>

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

# **The Commissioners of Thurmont, Maryland**

## **Notes to Financial Statements**

For the year ended June 30, 2010

### **1. Summary of Significant Accounting Policies**

#### **(A) Financial Reporting Entity**

The Commissioners of Thurmont, Maryland (“the Commissioners”) operate under an elected Mayor/Council administrative/legislative form of government. Major operations include police protection, waste collection, parks and recreation, public works and general administration services. In addition, the Commissioners own and operate three major business-type activities – an electric plant, a water system and a local sewer system. In the government-wide financial statements and the fund financial statements for the business-activities, Financial Accounting Standards Board (FASB) Pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989 have been applied unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) Pronouncements, in which case GASB prevails.

The accompanying financial statements present the Commissioners’ primary government and businesses activities. The Fiduciary Fund is reported separately in the Statement of Net Assets - Fiduciary Fund and the Statement of Changes in Net Assets - Fiduciary Fund, and is not included in the government-wide financial statements. The primary government is composed of the general fund. There are no component units. The business-activities include the electric plant, the water system and the sewer system.

#### **(B) Budgetary Information**

##### **Budget Policy and Practice**

The Mayor submits an annual budget to the Commissioners of Thurmont in accordance with the Commissioners of Thurmont’s Charter and Maryland Statutes. The budgets for the general fund and proprietary funds are presented to the Commissioners of Thurmont for review, and public hearings are held to address priorities and the allocation of resources. The Commissioners of Thurmont adopt the annual fiscal year budgets for operating funds. Once approved, the Commissioners of Thurmont may amend the legally adopted budgets when unexpected modifications are required. There were no modifications made in 2010.

##### **Basis of Budgeting**

The budgets for the operating funds and proprietary funds are prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. The budgeted financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal-year end.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### (C) Basic Financial Statements

The Commissioners' basic financial statements include both government-wide (reporting the governmental and business activities as a whole) and fund financial statements (reporting the governmental and proprietary funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities include police protection, parks and recreation, public works and general administrative services. Business-type activities include the operations of the three public utility funds (water, sewer and electric services). These services are rendered to the residents of the town on a fee-for-services basis.

#### (D) Basic Financial Statements – Government-Wide Statements

In the government-wide Statement of Net Assets, the business-type activities column is presented on a consolidated basis, and both the governmental and business-type activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. This basis recognizes all long-term assets and receivables as well as long-term debt and obligations. The net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Commissioners first utilize restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Commissioners' functions and business-type activities. The functions are supported by general government revenues (property and use taxes, certain intergovernmental revenues, fines and permits) and user fees.

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function (i.e. police, public works, parks) or a business-type activity. Operating grants include specific operating and discretionary grants.

The net expenses (by function or business-type activity) are normally recovered through general revenue (i.e. property taxes, intergovernmental revenues, interest) and fees for service.

The government-wide financial statements focus on the sustainability of the entity and the change in the net assets resulting from the current year's activities.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### (E) Basic Financial Statements – Fund Financial Statements

The financial transactions of the Commissioners are reported in individual funds in the fund financial statements. The governmental funds financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The proprietary funds financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Commissioners:

#### Governmental Fund Type – General Fund

The General Fund is the major governmental fund that is used to account for all financial resources not reported in the proprietary funds. The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The general fund is the general operating fund of the Commissioners. It is used to account for all financial resources except those required to be accounted for in another fund.

#### Proprietary Fund Types

There are three major proprietary funds. The focus of the proprietary funds (or business-type activities) measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The Commissioners policy is to follow the authoritative pronouncements of the Financial Accounting Standards Board (FASB) for its proprietary funds activities. Proprietary funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

#### Fiduciary Fund Types – Pension Trust Fund

Fiduciary funds are used to report assets held in a trustee or agency capacity of others and therefore are not available to support the Commissioners' programs. The reporting focus is on net assets and changes in net assets. Fiduciary funds are reported using accounting principles similar to business-type funds.

The Commissioners' pension trust fund is presented in the fiduciary fund financial statement. Since by definition these assets are being held for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### (F) Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

#### (G) Financial Statement Accounts

##### 1. Cash and Cash Equivalents

The Commissioners have defined cash and cash equivalents to include cash on hand, demand deposits and cash with a fiscal agent. Additionally, each fund's equity in the Commissioners' repurchase agreement is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

##### 2. Investments

Investments are stated at fair market value, defined as the quoted market price or the best available estimate.

##### 3. Inventories

Inventories consist of materials and supplies used by the proprietary funds and are stated at the lower of cost or market. The Commissioners use the first-in first-out (FIFO) method to record inventory for each of the funds.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### (G) Financial Statement Accounts (continued)

#### 4. Capital Assets

Capital assets purchased or acquired in excess of \$500 are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 - 50 years
Water and sewer system	30 - 50 years
Machinery and equipment	5 - 10 years
Improvements	10 - 20 years
Other infrastructure	10 - 50 years

During the fiscal year ended June 30, 2010 the Town has adopted and implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and has determined that the statement will be applied to intangible assets the Town purchases in a prospective manner.

#### 5. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to the proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB Statement No. 33.

In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and “deferred revenue” by the recipient.

In the governmental-wide statement of activities, fees include permit fees, parking meter receipts, cable franchise fees, rental fees, income from contract work and utility fees for service. Operating grants and contributions include an intergovernmental tax equity grant and a police grant. Capital contributions represent water and sewer connection fees.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### (G) Financial Statement Accounts (continued)

##### 5. Revenues (continued)

At June 30, 2010, receivables in the proprietary funds are reported net of a \$170,000 allowance for uncollectible accounts. There was also bad debt expense of \$2,083 recorded in general and administrative expense of the proprietary funds.

##### 6. Expenditures

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

##### 7. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure. Sick leave accrues to full-time, permanent employees to specified maximums and is not paid out upon termination or departure. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in accrued liabilities. The government-wide statements include accrued compensated absences of \$93,035, in the governmental and business-type activities at June 30, 2010.

##### 8. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Internal activity within the proprietary funds is eliminated in the government-wide statement of activities.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 1. Summary of Significant Accounting Policies (continued)

#### (G) Financial Statement Accounts (continued)

##### 9. Unamortized Bond Expense

Bond issuance costs represent legal fees and similar costs incurred relating to the issuance of general obligation and other bonds. Bond issuance costs are amortized using the straight-line method over the life of the bonds. Total amortization expense for 2010 was \$1,614 in the Water Utility Fund, \$2,344 in the Sewer Utility Fund, and \$5,206 in the Electric Utility Fund.

#### (H) Risk Management

The Commissioners are 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 Commissioners continue to carry commercial insurance for various risks of loss, including workers' compensation and fidelity bond insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### (I) Cash Flow Statements

For purposes of the statement of cash flows, the Commissioners consider all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

#### (J) Estimates

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

### 2. Deposits and Cash and Cash Equivalent Overnight Repurchase Agreement Investments

The Commissioners are restricted by state law as to the kinds of investments that can be made. Authorized investments include: deposits in banks, savings and loans which have the lawfully required escrow deposits or which have authorized collateral; in any obligation for which the United States has pledged its faith and credit of the payment of the principal and interest; in any obligation that a federal agency issues in accordance with an act of Congress; or in a repurchase agreement that any of these obligations secures. There are no formal deposit or investment policies specific to The Commissioners of Thurmont, Maryland.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 2. Deposits and Cash and Cash Equivalent Overnight Repurchase Agreement Investments (continued)

#### Deposits

Deposits totaling \$46,659 of the Commissioners are held within two banks in the form of certificates of deposit, payroll and savings accounts. Net transactions totaling \$134,415 did not pass through the financial institution until after June 30, 2010. There are securities held as collateral for deposits of \$3,019,924 at one of the financial institution's trust departments in the entity's name. There are no securities held as collateral for the deposits of \$6,865 held by the other financial institution's trust department or agents in the entity's name. This financial institution covers the Commissioners deposits for their interest bearing accounts up to the FDIC limit of \$250,000. The Commissioners throughout the year may have cash in the bank deposit accounts that exceed federally insured limits. The Commissioners have not experienced any losses in such accounts and believes that they are not exposed to any significant credit risk on cash and cash equivalents. The Commissioners did not have cash in excess of federally insured limits in the United States with any financial institutions at June 30, 2010.

#### Cash and Cash Equivalent Overnight Repurchase Agreement Investments

The Commissioners currently invest in overnight repurchase agreements that have underlying collateral of obligations of the United States government, its agencies and instrumentalities. At year-end, the balances of repurchase agreements, per the financial institutions, were as follows:

<u>Type of Repurchase Agreements</u>	<u>Balance of Repurchase Agreements</u>	<u>Cost &amp; Fair Value of Collateral</u>	<u>Average Credit Quality Ratings(1)</u>	<u>Weighted Average Days to Maturity</u>
Total Repurchase Agreements	\$2,980,131			
Governmental and Proprietary Funds:				
Federal National Mortgage Association		\$ 2,381,270	N/A	1
Federal Home Loan Mortgage - Gold		<u>1,823,206</u>	N/A	1
		<u>\$ 4,204,476</u>		

(1) Ratings for obligations of the U.S. government or those guaranteed by the U.S. government do not require disclosure of credit quality.

Due to higher cash flows at certain times during the year, the Commissioners' invested in overnight repurchase agreements, for which the underlying securities were held by the dealer. As a result, the balances invested in repurchase agreements were substantially higher at those times than at year-end.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 2. Deposits and Cash and Cash Equivalent Overnight Repurchase Agreement Investments (continued)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Commissioners investing activities are managed under the custody of the Chief Financial Officer. Investing is performed in accordance with conservative business practices and with state statutes, where applicable. There are no formal investment policies specific to The Commissioners of Thurmont, Maryland.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. There is no formal policy restricting the concentration of investment assets in a specific maturity period or an individual class of securities.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Commissioners' investment in a single issuer. There is currently no policy restricting the amount of assets invested with a single issuer.

#### **Debt Service Reserve - Cash**

The Drinking Water Bonds require that the Commissioners establish a "debt service reserve account" of \$35,000 that shall be maintained until all of the business-type funds and accounts directly related to the drinking water operation achieve a positive cash flow after meeting all payment obligations under the loan for two consecutive years following completion of the project. Thereafter, the reserve account may be adjusted annually by a written mutual agreement between the parties involved. The bonds are subject to prepayment in whole or in part, when and to the extent required by the EPA's State Revolving Fund Program Regulations. The "debt service reserve account" is included in "restricted cash" in the business-type funds.

### 3. Restricted Cash

Restricted cash in the business-type activities consists of the following at June 30, 2010:

<b><u>Business-Type Activities</u></b>	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Commissioner restricted	\$ 219,429	\$ 76,537	\$ 53,000	\$ 348,966
Refundable deposits	-	6,865	20,817	27,682
Debt service reserve	-	35,000	-	35,000
Total Restricted cash	<u>\$ 219,429</u>	<u>\$ 118,402</u>	<u>\$ 73,817</u>	<u>\$ 411,648</u>

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 3. Restricted Cash (continued)

Restricted cash in the governmental activities consist of the following at June 30, 2010:

<u>Governmental Activities</u>	<u>General</u>
Commissioner restricted	\$ 254,498
Refundable deposits	<u>63,872</u>
	<u>\$ 318,370</u>

### 4. Capital Assets and Depreciation

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Governmental activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Not being depreciated:				
Land	<u>\$ 523,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 523,145</u>
Other capital assets:				
Buildings and improvements	2,564,327	450	-	2,564,777
Recreational parks	918,161	21,138	-	939,299
Streets and drains	4,159,059	-	-	4,159,059
Equipment	<u>1,571,570</u>	<u>173,327</u>	<u>(49,543)</u>	<u>1,695,354</u>
Subtotal	<u>9,213,117</u>	<u>194,915</u>	<u>(49,543)</u>	<u>9,358,489</u>
Accumulated Depreciation:				
Buildings and improvements	334,294	130,556	-	464,850
Recreational parks	660,804	10,802	-	671,606
Streets and drains	3,208,243	178,777	-	3,387,020
Equipment	<u>1,263,870</u>	<u>125,292</u>	<u>(49,543)</u>	<u>1,339,619</u>
Subtotal	<u>5,467,211</u>	<u>445,427</u>	<u>(49,543)</u>	<u>5,863,095</u>
Net other capital assets	<u>3,745,906</u>	<u>(250,512)</u>	<u>-</u>	<u>3,495,394</u>
Net capital assets	<u>\$ 4,269,051</u>	<u>\$ (250,512)</u>	<u>\$ -</u>	<u>\$ 4,018,539</u>

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 4. Capital Assets and Depreciation (continued)

Depreciation was charged to functions as follows:

Governmental activities:		
General governmental		\$ 8,738
Public safety		140,713
Public works		75,509
Highways and streets		182,833
Recreation and parks		<u>37,634</u>
Total governmental activities depreciation expense		<u>\$ 445,427</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type activities:</u>				
Not being depreciated:				
Land	\$ 412,763	\$ 5,000	\$ -	\$ 417,763
Other capital assets:				
Buildings/improvements	4,010,379	2,652	-	4,013,031
Equipment	<u>31,302,646</u>	<u>1,089,924</u>	<u>(1,200)</u>	<u>32,391,370</u>
Subtotal	<u>35,313,025</u>	<u>1,092,576</u>	<u>(1,200)</u>	<u>36,404,401</u>
Accumulated Depreciation:				
Buildings/improvements	1,406,310	89,969	-	1,496,279
Equipment	<u>12,756,860</u>	<u>1,094,587</u>	<u>(1,200)</u>	<u>13,850,247</u>
Subtotal	<u>14,163,170</u>	<u>1,184,556</u>	<u>(1,200)</u>	<u>15,346,526</u>
Net other capital assets	<u>21,149,855</u>	<u>(91,980)</u>	<u>-</u>	<u>21,057,875</u>
Net capital assets	<u>\$ 21,562,618</u>	<u>\$ (86,980)</u>	<u>\$ -</u>	<u>\$ 21,475,638</u>

Depreciation was charged to functions as follows:

Business-type activities:		
Sewer		\$ 724,478
Water		180,826
Electric		<u>279,252</u>
Total business-type activities depreciation expense		<u>\$ 1,184,556</u>

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 5. Capital Lease Payable

Capital lease payable consists of a vehicle lease that matures in July 2011. Another vehicle capital lease matured in January 2010. The matured lease was capitalized at its incremental borrowing rate of 6.9% and was depreciated over its estimated useful life and was included in the police vehicles category at \$66,116. The original capitalized lease obligation of \$66,116, has been reduced to \$-0- at June 30, 2010. The vehicle entered into during the year ended June 30, 2010, has been capitalized at its incremental borrowing rate of 6.9%. The cost of the leased equipment is depreciated over its estimated useful life and is included in the police vehicles category at \$68,963. The original capitalized lease obligation of \$68,963, has been reduced to \$44,426 at June 30, 2010. Payments on the lease were \$24,537 for the year ended June 30, 2010. The lease matures in July 2011.

Future minimum payments, by year and in the aggregate, under the capital lease consist of the following at June 30, 2010:

Total minimum lease payment due in:	
2011	\$ 24,537
2012	24,537
Less amount representing interest	<u>(4,648)</u>
Present value of net minimum payments	<u>\$ 44,426</u>

There was interest expense of \$1,375 for the year ended June 30, 2010.

### 6. Notes Payable

In the government-wide financial statements, the governmental activities includes one of two separate notes payable. The notes payable represents the remaining balance (\$760) on a note dated August 1985 due to the State of Maryland for a local shore erosion control project. The State of Maryland note is an interest free loan, which is repayable in twenty-five annual installments of \$760 through July 2011 with the full faith and credit of the Commissioners pledged against the note. There is no interest expense in the governmental activities.

In May 2007, the Commissioners entered into an agreement with a bank for a \$2,000,000 note to fund the construction of the police building. The interest rate on this loan is 4.09%. The loan requires semi-annual payments of principal and interest beginning October 2007 and matures April 30, 2022. The full faith and credit and unlimited taxing power of the Town are pledged against the note. For the year ended June 30, 2010, interest of \$72,908 was paid on this note.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 7. Bonds Payable – General Obligation – Business Activities

At June 30, 2009, bonds issued and outstanding include the following:

Fund Type	Bonds	Maturity	Outstanding	Interest Rate
Electric Utility	General Obligation Infrastructure Bonds, 2006 Series A (refinanced on April 1, 2006); Original April 2006 issue amount - \$3,029,100.	2009 - 2026	\$ 2,589,600	4.27%
Water Utility	General Obligation Infrastructure Bonds, 1988 Series A dated January 28, 1988; Original issue amount - \$1,279,000.	2009 - 2018	664,000	4.75%
Water Utility	Drinking Water Bonds, Series 1999 dated June 16, 1999; Original issue amount - \$2,243,740.	2009 - 2020	1,254,824	2.41%
Sewer Utility	General Obligation Water Quality Bond, Series 1994 refinanced on August 1, 2005; Original August 2005 issue amount - \$1,534,599.	2009 - 2015	855,921	4.00%
Sewer Utility	General Obligation Sewer System Bond, dated December 7, 1983; Original issue amount - \$587,900.	2009 - 2023	329,545	5.00%

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 7. Bonds Payable – General Obligation – Business Activities (continued)

Fund Type	Bonds	Maturity	Outstanding	Interest Rate
Sewer Utility	General Obligation Water Quality Bond, Series 2006 dated September 28, 2006; Amount available for issue \$1,731,005; amount drawn \$1,255,737	2009 - 2026	990,226	0.40%
	Total		<u>\$ 6,684,116</u>	

In April 2006, the Electric Utility's 1996 Series A General Obligation Infrastructure Bonds (original amount \$3,619,912) were refinanced. These bonds were originally issued to finance the construction of an electric substation and purchase vehicles. In April 2006, the unpaid principal balance of \$2,905,000 on the 1996 Series A bonds with an interest rate of 5.81% was refunded through the issuance of a State of Maryland Department of Housing and Community Development issue of \$3,029,100 of Series A Local Government Infrastructure Bonds with an interest rate of 4.27%. The refunding of the bond decreased the Town's total debt service payments over the next 20 years by \$483,493. The defeasance resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$322,784.

The Water Utility's 1988 Series A Infrastructure Bonds were issued for the purpose of providing a portion of the funds necessary for construction of water distribution improvements. Semi-annual payments are due each May and November through 2018.

The Water Utility's Drinking Water Bonds, Series 1999, were issued to finance the Thurmont Water System Improvements project. Repayment is required over a twenty-year period with annual payments beginning in February 2001 and semi-annual interest payments due each August and February. An administrative fee is due each August.

The Sewer Utility's general obligation Water Quality Bond, Series 1994 (original issue of \$2,500,000), was amended on August 1, 2005, creating a new issue amount of \$1,534,599 and reducing the interest rate from 4.75% to 4%. Originally, the proceeds from this bond were issued to finance construction costs relating to wastewater treatment plant improvements. This bond was issued to the Maryland Water Quality Financing Administration of the State of Maryland in connection with the Maryland Water Quality Revolving Loan Fund. Repayment is required over a twenty-year period with semi-annual interest payments due each August and February and annual principal payments due each February. An administrative fee is also due each August.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 7. Bonds Payable – General Obligation – Business Activities (continued)

The Water Quality Bond is subject to mandatory prepayment when and to the extent required by the EPA's State Revolving Fund Program Regulations. The Commissioners may prepay the bond but such prepayment may be subject to a prepayment premium at the discretion of the Director of the Water Quality Financing Administration.

The Sewer Utility's General Obligation Sewer System Bond was issued to finance the Commissioners' portion of construction costs relating to the wastewater treatment plant. This bond is insured by the Farmers Home Administration. Repayment is required over a forty-year period with semi-annual payments of \$17,067 including interest.

At the option of the Commissioners, outstanding sewer general obligation bonds may be redeemed prior to maturity.

During the year ended June 30, 2007 the Drinking Water Bond, Series 2006, was issued to finance the improvements to the wastewater treatment facility. In 2007, \$187,554 was drawn and an additional \$1,005,396 was drawn in 2009 on the available principal balance of \$1,731,005. Repayment is required over a twenty-year period with annual principal payments due each February and semi-annual interest payments due each August and February.

These following bonds contain prepayment provisions at prescribed times at the following prices expressed as a percentage of the principal amount to be prepaid:

Water Quality Bond, Series 1994		Infrastructure Bonds, Series 2006	
<u>Period</u>	<u>Price</u>	<u>Period</u>	<u>Price</u>
June 1, 2002 and thereafter	100	June 1, 2008 and thereafter	100

While the bonds recorded in the electric, water and sewer utility funds are intended to be serviced from those funds, they are guaranteed by the full faith and credit of the Commissioners.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 7. Bonds Payable – General Obligation – Business Activities (continued)

#### Bonds and Notes Payable

Following is a summary of long-term debt transactions for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Note payable	<u>\$ 1,799,617</u>	<u>\$ -</u>	<u>\$ (108,009)</u>	<u>\$ 1,691,608</u>
<b>Business-type activities:</b>				
General obligation bonds	<u>\$ 7,158,903</u>	<u>\$ 62,607</u>	<u>\$ (537,394)</u>	<u>\$ 6,684,116</u>

The amount of principal due within one year for each of the long-term debt transaction areas is as follows:

Governmental notes payable	\$ 112,441
General obligation bonds	<u>554,388</u>
	<u>\$ 666,829</u>

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 7. Bonds Payable – General Obligation – Business Activities (continued)

#### Bonds and Notes Payable (continued)

A summary of debt service requirements to maturity by year is as follows:

Years Ending June 30	Business-Type Activities	
	Principal	Interest
2011	\$ 554,380	\$ 251,899
2012	577,339	232,111
2013	597,673	204,970
2014	621,990	181,903
2015	647,814	157,541
2016 - 2020	2,328,329	487,906
2021 - 2025	1,143,091	184,235
2026 - 2030	213,500	9,394
	<u>\$ 6,684,116</u>	<u>\$ 1,709,959</u>

Years Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 112,441	\$ 68,025
2012	116,296	63,411
2013	121,101	58,606
2014	126,105	48,392
2015	131,315	53,602
2016 - 2020	742,586	155,948
2021 - 2025	341,764	17,413
	<u>\$ 1,691,608</u>	<u>\$ 465,397</u>

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 8. Fund Equity

The Commissioners have set aside a \$25,000 reserve fund within the unrestricted net assets of the governmental fund. The reserve will be used for emergencies only.

### 9. Commitments

In December 2009, the Town entered into an agreement to lease space to a third party. The agreement calls for monthly rent of \$500 with an escalation of 3% each year. The agreement terminates on September 30, 2014, but early termination can occur by a 90 day written notice by either party. The Town recognized rental revenue of \$3,000, which is included in "Charges for services" income at June 30, 2010. Future rental revenue is expected as follows: 2011 - \$6,090; 2012 - \$6,273; 2013 - \$6,461; 2014 - \$6,655; and 2015 - \$1,688.

### 10. Property Taxes

The Commissioners levy and accrue property taxes each July 1 on the assessed value of properties listed as of the prior January 1.

The locally assessed taxable bases were prepared from assessments submitted by Frederick County, Maryland. A revaluation of all property is required to be completed every third year. Any increase in assessed value is phased in over a three-year period. Property taxes are due on July 1, however, they do not become delinquent until February 28 of the following year.

The tax rate for locally assessed real property was set by the Commissioners at \$.260 for each hundred dollars of valuation. The tax rate for ordinary business corporation and railroad and public utility certifications remained at sixty-two cents for each hundred dollars of valuation in 2010. The assessment bases of all real and personal property (unaudited) subject to municipal taxation, net of various exemptions, for the current levy year are shown below by class:

Locally assessed - real property	\$	536,206,148
Certified by state:		
Ordinary business corporation		20,435,170
Railroad and public utilities		<u>2,995,230</u>
Total base	\$	<u><u>559,636,548</u></u>

### 11. Employee Retirement System and Pension Plan (Unaudited)

#### Plan Description

Prior to September 2005, The Commissioners of Thurmont, Maryland maintained a single-employer non-contributory defined benefit pension plan – Retirement Plan for Employees of The Town of Thurmont.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 11. Employee Retirement System and Pension Plan (Unaudited) (continued)

#### Plan Description (continued)

The Plan provided retirement benefits to Plan members and their beneficiaries. The Commissioners of Thurmont, Maryland reserved the right at any time to reduce, suspend, or discontinue its contributions to the Plan. As of the date of this report, the assets under the old plan remain and are expected to be transferred to the State of Maryland in fiscal year 2011.

The investments (MetLife contract GR-911192) are reported at market value, where market value is defined as the contract value of the fixed income fund. The administrative costs of \$23,246 are financed through the investment earnings.

Effective September 2005, the Town participates in a defined benefit pension plan, which provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The Employees' Contributory Pension System (ECPS) is part of the State Retirement and Pension System of Maryland, an agent multiple-employer public employee retirement system administered by the State Retirement Agency.

The System was established by the State Personnel and Pensions Article of the Annotated code of Maryland. The State Retirement and Pension System of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for ECPS. That report may be obtained by writing to the State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland, 21202 or on the internet at [www.sra.state.md.us](http://www.sra.state.md.us).

#### Funding Policy

The contribution requirements of plan members and the Town are established and may be amended by the System's Board of Trustees. ECPS plan members are required to contribute 2% of earnable compensation. The Town is required to contribute at an actuarially determined rate for the plan.

#### Annual Pension Cost

For 2010, the Town's annual pension cost of \$356,148 for ECPS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the individual entry age normal method.

The actuarial assumptions included (a) a 7.75% investment rate of return, (b) projected salary increases of 3.5% attributable to inflation, (c) additional projected salary increases attributable to seniority and merit ranging from 0% to 8.50% per year, (d) post retirement benefit increases ranging from 3% to 4% per year, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2003 through June 30, 2006, and (f) the aggregate active member payroll is assumed to increase by 3.5% annually.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 11. Employee Retirement System and Pension Plan (Unaudited) (continued)

#### Annual Pension Cost (continued)

The System's Unfunded Actuarial Accrued Liability (UAAL) is being amortized, as a level of percentage of payroll, in two distinct pieces. The UAAL, which existed as of the June 30, 2000 actuarial valuation, is being amortized over the remaining 11-year period to June 30, 2020. Each new layer of UAL arising subsequent to June 30, 2000 is being amortized over a 25-year period. The equivalent single amortization period is 29.783 years.

The Town's annual pension cost for the last three years for which actuarial information is available was:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2007	\$ 365,715	100%	\$ -
June 30, 2008	\$ 353,352	100%	\$ -
June 30, 2009	\$ 356,147	100%	\$ -

Beginning July 1, 2006, the system changed its funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method.

The information presented in the required supplementary schedules immediately following the notes to the financial statements presents multiyear trend information from the Employees' Contributory Pension System (ECPS) which is part of the State Retirement and Pension System of Maryland about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### 12. Deferred Compensation Plan (Unaudited)

In October 1997, GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was issued. This Statement establishes accounting and financial reporting standards for Internal Revenue Code (IRC) section 457 deferred compensation plans of state and local governments. Pursuant to the IRC 457 subsection (g), all amounts of compensation deferred under the Plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the Plan.

The Commissioners of Thurmont have established a deferred compensation plan in accordance with subsection (g) of the IRC Section 457. The Plan is administered by an independent plan administrator through a service agreement and is available to all Town employees. Employees defer a portion of their salary until future years.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 12. Deferred Compensation Plan (Unaudited)

Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Commissioners' compensation funds are not subject to the claims of their general creditors.

Under the provisions of GASB Statement No. 32, it is no longer considered appropriate to report the Section 457 plan in the Commissioners of Thurmont's financial statements. The investments under the 457 plan at fair market value were \$170,769 at June 30, 2010.

### 13. Segment Information for Business-Type Funds

The Commissioners maintain three business-type funds, which provide electric, water and sewer utility services. Segment information for the current year follows:

	Sewer	Water	Electric	Total Business-type Funds
<b>Condensed Statement of Net Assets</b>				
Assets:				
Current assets	\$ 290,637	\$ 158,158	\$ 1,494,417	\$ 1,943,212
Other assets	55,553	13,569	81,974	151,096
Capital assets	<u>9,759,074</u>	<u>6,231,054</u>	<u>5,485,510</u>	<u>21,475,638</u>
Total assets	<u>\$ 10,105,264</u>	<u>\$ 6,402,781</u>	<u>\$ 7,061,901</u>	<u>\$ 23,569,946</u>
Liabilities:				
Current liabilities	\$ 1,925,444	\$ 613,632	\$ 881,151	\$ 3,420,227
Non-current liabilities	<u>1,913,271</u>	<u>1,745,357</u>	<u>2,471,100</u>	<u>6,129,728</u>
Total liabilities	<u>\$ 3,838,715</u>	<u>\$ 2,358,989</u>	<u>\$ 3,352,251</u>	<u>\$ 9,549,955</u>
Net assets:				
Invested in capital assets	\$ 7,583,382	\$ 4,312,230	\$ 2,895,910	\$ 14,791,522
Unrestricted net assets	<u>(1,316,833)</u>	<u>(268,438)</u>	<u>813,740</u>	<u>(771,531)</u>
Total net assets	<u>\$ 6,266,549</u>	<u>\$ 4,043,792</u>	<u>\$ 3,709,650</u>	<u>\$ 14,019,991</u>

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 13. Segment Information for Business-Type Funds (continued)

	Sewer	Water	Electric	Total Business-type Funds
<b>Condensed Statement of Revenues - Expenses and Changes in Net Assets</b>				
Operating revenues	\$ 1,229,425	\$ 863,372	\$ 8,086,838	\$ 10,179,635
Depreciation and amortization expense	726,822	182,440	284,458	1,193,720
Operating expenses	<u>545,756</u>	<u>537,663</u>	<u>7,826,636</u>	<u>8,910,055</u>
Operating income (loss)	<u>(43,153)</u>	<u>143,269</u>	<u>(24,256)</u>	<u>75,860</u>
Nonoperating revenues (expenses):				
Interest earned	13,887	8,583	3,358	25,828
Interest expense	(70,491)	(81,328)	(113,738)	(265,557)
Capital contributions	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
<b>Change in net assets</b>	<u>(97,257)</u>	<u>70,524</u>	<u>(134,636)</u>	<u>(161,369)</u>
Beginning net assets	<u>6,363,806</u>	<u>3,973,268</u>	<u>3,844,286</u>	<u>14,181,360</u>
Ending net assets	<u>\$ 6,266,549</u>	<u>\$ 4,043,792</u>	<u>\$ 3,709,650</u>	<u>\$ 14,019,991</u>

### Condensed Statement of Cash Flows

Net cash provided by (used in):

Operating activities	\$ 746,094	\$ 318,714	\$ 211,493	\$ 1,276,301
Capital and financing activities	(1,248,739)	(314,032)	(277,588)	(1,840,359)
Investing activities	<u>13,887</u>	<u>8,583</u>	<u>3,358</u>	<u>25,828</u>
Net increase (decrease)	(488,758)	13,265	(62,737)	(538,230)
Beginning cash and cash	<u>708,187</u>	<u>105,137</u>	<u>627,346</u>	<u>1,440,670</u>
Ending cash and cash equivalents	<u>\$ 219,429</u>	<u>\$ 118,402</u>	<u>\$ 564,609</u>	<u>\$ 902,440</u>

### 14. Subsequent Event

Subsequent events were evaluated through December 31, 2010, the date the financial statements were available to be issued.

In September 2010, the Commissioners were authorized to receive \$21,069 of reimbursements for costs incurred during the February 2010 winter storm from the Federal Emergency Management Agency.

# The Commissioners of Thurmont, Maryland

## Notes to Financial Statements

For the year ended June 30, 2010

### 15. Future Accounting and Financial Reporting Statement Implementation

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

GASB 59, *Financial Statement Omnibus*, is effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

GASB 61, *The Financial Reporting Entity: Omnibus*, is effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The Statements will result in the financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

## **Required Supplementary Information**

## The Commissioners of Thurmont, Maryland

### Schedule of Funding Progress – Pension Plan (Unaudited)

For the year ended June 30, 2010

The Schedule of Funding Progress below is of The Employees' Contributory Pension System (ECPS) which is part of the State Retirement and Pension System of Maryland, an agent multiple-employer public employee retirement system administered by the State Retirement Agency.

	(Expressed in Thousands)		
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Actuarial Value of Assets	\$ 34,284,569	\$ 39,504,284	\$ 37,886,936
Actuarial Accrued Liability	<u>52,729,171</u>	<u>50,244,047</u>	<u>47,144,354</u>
Unfunded Actuarial Accrued Liability	<u>\$ 18,444,602</u>	<u>\$ 10,739,763</u>	<u>\$ 9,257,418</u>
Funded Payroll	65.02%	78.62%	80.36%
Covered Payroll	<u>\$ 10,714,241</u>	<u>\$ 10,542,806</u>	<u>\$ 9,971,012</u>
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	172%	102%	93%

As of July 1, 2006, the system changed its funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method. Due to an actuarial error, the Schedule of Funding Progress presented in June 30, 2007 Comprehensive Annual Financial Report overstated the Actuarial Accrued Liability. The 2007 funding results have been restated above to reflect the corrected actuarial valuation results.

**Notes to the  
Required Supplementary Information**

# The Commissioners of Thurmont, Maryland

## Notes to the Required Supplementary Information

For the year ended June 30, 2010

### 1. Description of Schedule of Funding Progress

The Schedule of Funding Progress is for The Employees' Contributory Pension System (ECPS) which is part of the State Retirement and Pension System of Maryland, an agent multiple-employer public employee retirement system administered by the State Retirement Agency. The Schedule of Funding Progress for the Employees' Combined System summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2009, a date one year behind the fiscal year-end of the Commissioners.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the System's ability to pay all projected benefits as they become due. The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2009, the System's funded ratio decreased from 78.62% to 65.02%. The primary cause for the decrease in the actuarial funding ratio was caused by investment losses and an increase to the Systems' actuarial accrued liability.

The Schedule of Funding Progress also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. During the year ended June 30, 2009, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 102% to 172%.

### 2. Actuarial Methods and Assumptions

#### Funding Method

The System uses the Individual Entry Age Normal actuarial funding method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate (see note 4).

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 11-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 29.783 years.

# The Commissioners of Thurmont, Maryland

## Notes to the Required Supplementary Information

For the year ended June 30, 2010

### 2. Actuarial Methods and Assumptions

#### Asset Valuation Method

Assets are valued for funding purposes by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets.

#### Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2009:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2003);
- projected salary increases of 3.5% compounded annually, attributable to inflation (adopted June 30, 2007);
- additional projected salary increases ranging from 0.00% to 8.50% per year attributable to seniority and merit (adopted June 30, 2007);
- post-retirement benefit increases ranging from 2.75% to 3.5% per year depending on the system (adopted June 30, 2009);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from June 30, 2003 through June 30, 2006 (adopted June 30, 2007); and
- an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

## **Supplemental Information**

**The Commissioners of Thurmont, Maryland**

**Schedule of Operating Revenues and Expenses - Budget and Actual -  
Electric Utility Proprietary Fund  
(Budgetary Basis)**

For the year ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues:</b>			
Charges for services:			
Domestic and residential	\$ 1,632,600	\$ 330,840	\$ (1,301,760)
Commercial and industrial	1,348,140	1,356,351	8,211
All electric residential	-	1,270,157	1,270,157
Outdoor lighting	16,660	14,657	(2,003)
Public street lighting	30,500	25,590	(4,910)
Fuel cost adjustment	<u>5,051,300</u>	<u>5,066,809</u>	<u>15,509</u>
Total charges for services, net of discounts	<u>8,079,200</u>	<u>8,064,404</u>	<u>(14,796)</u>
<b>Net income from contract work</b>	<u>1,000</u>	<u>44</u>	<u>(956)</u>
<b>Miscellaneous:</b>			
Forfeited discounts	9,000	18,899	9,899
Permits and connection charges	-	2,307	2,307
Sales tax allowance and sundry	<u>700</u>	<u>1,184</u>	<u>484</u>
Total miscellaneous	<u>9,700</u>	<u>22,390</u>	<u>12,690</u>
<b>Total operating revenues</b>	<u>\$ 8,089,900</u>	<u>\$ 8,086,838</u>	<u>\$ (3,062)</u>

## The Commissioners of Thurmont, Maryland

### Schedule of Operating Revenues and Expenses - Budget and Actual - Electric Utility Proprietary Fund (continued) (Budgetary Basis)

For the year ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Expenses:</b>			
Purchased power	\$ 6,375,000	\$ 6,638,338	\$ (263,338)
System maintenance:			
Labor and supervision	280,175	200,936	79,239
Materials and supplies	73,435	68,450	4,985
Meter reading	46,700	52,604	(5,904)
Truck operations	24,350	18,188	6,162
Total system maintenance	<u>424,660</u>	<u>340,178</u>	<u>84,482</u>
Depreciation	224,800	279,252	(54,452)
Amortization	-	5,206	(5,206)
Total depreciation and amortization	<u>224,800</u>	<u>284,458</u>	<u>(59,658)</u>
General and administrative:			
Employee benefits	228,750	277,240	(48,490)
Office salaries	187,635	180,692	6,943
Professional services	130,000	165,549	(35,549)
Stationery, postage and office expenses	85,000	68,861	16,139
Insurance	50,100	45,766	4,334
Payroll taxes	40,845	37,077	3,768
Rent in lieu of tax	28,850	28,848	2
Dues and advertisement	16,500	12,874	3,626
Commissioners' salaries	12,000	14,333	(2,333)
Telephone	11,100	7,997	3,103
Contributions	8,400	6,800	1,600
Sundry	-	2,083	(2,083)
Total general and administrative	<u>799,180</u>	<u>848,120</u>	<u>(48,940)</u>
<b>Total operating expenses</b>	<u>\$ 7,823,640</u>	<u>\$ 8,111,094</u>	<u>\$ (287,454)</u>

**The Commissioners of Thurmont, Maryland**

**Schedule of Operating Revenues and Expenses - Budget and Actual -  
Water Utility Proprietary Fund  
(Budgetary Basis)**

For the year ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues:</b>			
Charges for services -			
Metered water sales	\$ 745,570	\$ 835,845	\$ 90,275
Other income	<u>44,500</u>	<u>27,527</u>	<u>(16,973)</u>
<b>Total operating revenues</b>	<u>\$ 790,070</u>	<u>\$ 863,372</u>	<u>\$ 73,302</u>
<b>Operating Expenses:</b>			
System maintenance:			
Labor and supervision	\$ 172,500	\$ 167,527	\$ 4,973
Materials and supplies	131,100	154,318	(23,218)
Meter reading	11,500	12,163	(663)
Truck operations	<u>7,800</u>	<u>10,798</u>	<u>(2,998)</u>
Total system maintenance	<u>322,900</u>	<u>344,806</u>	<u>(21,906)</u>
Depreciation and amortization	<u>154,000</u>	<u>182,440</u>	<u>(28,440)</u>
General and administrative:			
Employee benefits and payroll taxes	110,705	119,062	(8,357)
Office salaries	26,400	15,964	10,436
Insurance	24,465	21,261	3,204
Stationery, postage and office expenses	23,410	23,231	179
Professional services	16,000	9,006	6,994
Commissioners' salaries	<u>4,000</u>	<u>4,333</u>	<u>(333)</u>
Total general and administrative	<u>204,980</u>	<u>192,857</u>	<u>12,123</u>
<b>Total operating expenses</b>	<u>\$ 681,880</u>	<u>\$ 720,103</u>	<u>\$ (38,223)</u>

**The Commissioners of Thurmont, Maryland**

**Schedule of Operating Revenues and Expenses - Budget and Actual -  
Sewer Utility Proprietary Fund  
(Budgetary Basis)**

For the year ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Operating Revenues:</b>			
Charges for services -			
User charges	\$ 1,135,250	\$ 1,119,187	\$ (16,063)
Other income	<u>-</u>	<u>110,238</u>	<u>110,238</u>
<b>Total operating revenues</b>	<u>\$ 1,135,250</u>	<u>\$ 1,229,425</u>	<u>\$ 94,175</u>
<b>Operating Expenses:</b>			
System maintenance:			
Labor and supervision	\$ 278,445	\$ 190,480	\$ (87,965)
Power, supplies and maintenance	114,500	200,385	85,885
Truck operations	5,300	9,149	3,849
Meter reading	4,515	-	(4,515)
Mowing contract	<u>2,300</u>	<u>31</u>	<u>(2,269)</u>
Total system maintenance	<u>405,060</u>	<u>400,045</u>	<u>(5,015)</u>
Depreciation and amortization	<u>435,000</u>	<u>726,822</u>	<u>291,822</u>
General and administrative:			
Employee benefits and payroll taxes	86,550	65,592	(20,958)
Professional services	43,730	11,012	(32,718)
Insurance	27,800	23,846	(3,954)
Office salaries	12,600	17,864	5,264
Stationery, postage and office expenses	8,760	18,396	9,636
Commissioners' salaries	4,000	4,000	-
Telephone	<u>3,750</u>	<u>5,001</u>	<u>1,251</u>
Total general and administrative	<u>187,190</u>	<u>145,711</u>	<u>(41,479)</u>
<b>Total operating expenses</b>	<u>\$ 1,027,250</u>	<u>\$ 1,272,578</u>	<u>\$ 245,328</u>

## **Statistical Section**

# The Commissioners of Thurmont, Maryland

## Schedule of General Capital Assets by Function and Activity

For the year ended June 30, 2010

<b>Land</b>		\$ 523,145
<b>Recreational parks - general government:</b>		
Community Park	\$ 307,628	
Square Park	183,010	
East End Recreation Park	182,644	
Memorial Park	75,685	
Eyler Road Recreation Area	62,615	
Ice Plant Park	38,340	
Trolley Car	19,520	
Pleaseant Acres Park	18,824	
Orchard Hills Park	16,553	
Carroll Street Park	14,633	
Woodland Park	12,238	
Webster's Springhouse	<u>7,609</u>	939,299
<b>Buildings and improvements - general government:</b>		
New stockroom building and office addition	198,130	
Police building	2,140,836	
Capitalized police building interest	74,066	
East End warehouse	84,929	
Garage	50,365	
Parking lot	<u>16,451</u>	2,564,777
<b>Streets and drains - highways and streets - general government:</b>		
Streets, alleys and drains	3,846,394	
Storm drains	<u>312,665</u>	4,159,059
<b>Equipment - general government:</b>		
<b>General government:</b>		
Machinery and equipment	635,776	
Parking meters	23,595	
<b>Public works:</b>		
Police vehicles	380,502	
Police vehicles under capital lease	73,612	
Small tools	284,126	
<b>Public safety:</b>		
Office furniture and fixtures	<u>297,743</u>	<u>1,695,354</u>
Total capital assets		9,881,634
<b>Less accumulated depreciation:</b>		
Recreational parks	(671,606)	
Buildings and improvements	(464,850)	
Streets and drains	(3,387,020)	
Equipment	<u>(1,339,619)</u>	<u>(5,863,095)</u>
Net investment in capital assets		<u>\$ 4,018,539</u>

**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**

The Commissioners  
The Commissioners of Thurmont, Maryland  
Thurmont, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Commissioners of Thurmont, Maryland as of and for the year ended June 30, 2010, and have issued our report thereon dated December 31, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The Commissioners of Thurmont, Maryland's internal control over financial reporting as a basis for designing our auditing procedures 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 Commissioners of Thurmont, Maryland's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Commissioners of Thurmont, Maryland's internal control over financial reporting.

*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 controls 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified a deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

I. **Reconciliation of Cash and Review of Accounts**

At the beginning of our audit, it was again noted that cash was not entirely reconciled at year end, and there were journal entries needed to adjust these accounts for errors that occurred throughout the year. Obviously, these errors affected accounts other than cash. In order to ensure accurate financial reporting, we suggest that management perform monthly cash reconciliations and more routine reviews that include all funds and accounts.

*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 identified a deficiency in internal control over financial reporting, that we consider to be a significant deficiency.

## II. Preparation of Financial Statements

An integral component of a sound internal control environment is the ability to prepare annual financial statements, including required disclosures, in accordance with accounting principles generally accepted in the United States of America. The client personnel do not appear to have the necessary competencies to prepare financial statements in accordance with generally accepted accounting principles. The client personnel relies on assistance from the independent auditors to prepare the annual financial statements and to complete and update the notes to the financial statements.

The Commissioners of Thurmont, Maryland's response to the findings identified in our audit is described below. We did not audit the Commissioners of Thurmont, Maryland's response and, accordingly, we express no opinion on it.

### Commissioners of Thurmont, Maryland Corrective Action Plan

In response to Item I, subsequent to the first reporting of this finding on June 30, 2009, The Commissioners of Thurmont, Maryland's staff began to perform bank reconciliations both individually and on an overall fund basis for the treasurer's cash account to ensure accurate financial reporting. Additionally, reviews of journal entries and account balances were performed. However, they were not performed timely. We will monitor the completion of these reconciliations to ensure compliance during the year ended June 30, 2011. In response to Item II, based on the size of the organization, the Commissioners of Thurmont, Maryland do not feel it is necessary to have personnel on staff that can prepare financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America, but do now require various financial metrics and reports that will provide a better assessment of the Town's financial situation and the results of its financial reporting and internal control systems

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Commissioners of Thurmont, Maryland's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Commissioners of Thurmont, Maryland, in a separate letter dated December 31, 2010.

This report is intended solely for the information and use of the Commissioners, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*McLean, Koehler, Sparks & Hammond*

December 31, 2010  
Frederick, Maryland