

**The Commissioners of
Thurmont, Maryland**

Audited Financial Statements

**For The Fiscal Year Ended
June 30, 2016**

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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, the aggregate remaining fund information, and the respective budgetary comparison for the General Fund of The Commissioners of Thurmont, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The Commissioners of Thurmont, Maryland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and information contained in the schedules of funding progress, changes in Employee Retirement System (ERS) pension liability and related ratios and pension contributions and related ratios, 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 as described above because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Commissioners of Thurmont, Maryland's basic financial statements. The introductory section, individual fund financial statements, budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statements. Such information 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 combining and individual fund financial statements and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

McLean, Koehler, Sparks & Hammond

Frederick, Maryland
December 30, 2016

THE COMMISSIONERS OF THURMONT, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016

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, 2016. 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 \$32,195,598. Of this amount, \$6,144,614 may be used to meet the Town's ongoing obligations to citizens and creditors.
2. The Town's total net position increased by \$326,976.
3. As of the close of the current fiscal year, the Town reported a net position of \$32,950,233, an increase of \$326,976 in comparison to the prior year's net position of \$32,623,257. The increase was due to the Town's current year activity. Unrestricted net positions of \$6,144,614 are considered unreserved and available for spending at the discretion of the Town.
4. The Town's total debt increased by \$1,821,360 due to one new bond that was entered into in the sewer fund during November 2015 in the original issued amount of \$2,277,681. All scheduled debt payments were made during the year.

General Fund Budgetary Highlights

The budgetary comparison schedule can be found on page 14 of this report. The final adopted General Fund budget for fiscal year 2016 included revenues of \$3,463,714, expenditures of \$2,827,669, capital outlay of \$318,690 for capital additions and improvements, and \$151,949 for debt service. The resulting budgeted excess of \$165,406 was a budgeted increase of \$99,967 from the budgeted 2015 fiscal year excess of revenue over expenditures of \$65,439.

There was one budget amendment made during the 2016 fiscal year that increased the expense balance by \$4,766 and increased the capital outlay by \$20,955. The General Fund budget complied with financial policies approved by the Commissioners of Thurmont. The excess of revenues over expenditures was \$85,281, an amount that was \$80,125 less than anticipated on the modified accrual basis of accounting. The difference is due to the revenues being more than budgeted by \$488,014 due to intergovernmental revenues being more than budgeted. Expenditures were \$139,875 more than budgeted and the capital outlay was \$402,491 more than budgeted.

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 and supplemental 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 position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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 pages 4 - 6 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 proprietary funds. A budgetary comparison statement for the general fund has been provided to demonstrate compliance with the budget.

The Town classifies its fund balances in accordance with new accounting guidance. As a result, the Town now reports unassigned funds of \$3,850,255 and committed funds of \$1,072,929. Unassigned funds are not designated for any specific purpose. Committed funds represent funds set aside by the Commissioners for future capital projects.

The basic governmental fund financial statements can be found on pages 7 – 9 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 10 – 13 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 15 – 43 of this report.

Other information. The statement on page vii 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 position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Thurmont, the net position was \$7,881,990 for the governmental activities at the close of the most recent fiscal year. The net position of the business activities was \$25,068,243.

By far the largest portion of the Town's government-wide statements net position is 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 position and changes in net position of the Town's governmental and business-type activities.

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

	2016			2015		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Government</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Government</u>
ASSETS						
Current Assets	\$ 5,109,439	\$ 5,342,193	\$ 10,451,632	\$ 4,896,329	\$ 5,088,731	\$ 9,985,060
Noncurrent Assets	156,669	14,844	171,513	67,802	14,844	82,646
Capital Assets	<u>5,341,914</u>	<u>33,165,061</u>	<u>38,506,975</u>	<u>5,114,008</u>	<u>32,153,937</u>	<u>37,267,945</u>
TOTAL ASSETS	<u>10,608,022</u>	<u>38,522,098</u>	<u>49,130,120</u>	<u>10,078,139</u>	<u>37,257,512</u>	<u>47,335,651</u>
DEFERRED OUTFLOWS OF RESOURCES						
	<u>386,072</u>	<u>717,336</u>	<u>1,103,408</u>	<u>177,887</u>	<u>420,416</u>	<u>598,303</u>
TOTAL ASSETS AND DEFERRED OUTFLOW						
	<u>\$ 10,994,094</u>	<u>\$ 39,239,434</u>	<u>\$ 50,233,528</u>	<u>\$ 10,256,026</u>	<u>\$ 37,677,928</u>	<u>\$ 47,933,954</u>
LIABILITIES						
Long-Term Liabilities	\$ 2,590,989	\$ 13,058,777	\$ 15,649,766	\$ 2,422,339	\$ 11,406,067	\$ 13,828,406
Other Liabilities	<u>381,607</u>	<u>903,149</u>	<u>1,284,756</u>	<u>199,944</u>	<u>947,456</u>	<u>1,147,400</u>
TOTAL LIABILITIES	<u>2,972,596</u>	<u>13,961,926</u>	<u>16,934,522</u>	<u>2,622,283</u>	<u>12,353,523</u>	<u>14,975,806</u>
DEFERRED INFLOWS OF RESOURCES						
	<u>139,508</u>	<u>209,265</u>	<u>348,773</u>	<u>133,956</u>	<u>200,935</u>	<u>334,891</u>
NET POSITION						
Net Investment In						
Capital Assets	4,330,289	22,475,330	26,805,619	3,915,501	22,583,618	26,499,119
Unrestricted	<u>3,551,701</u>	<u>2,592,913</u>	<u>6,144,614</u>	<u>3,584,286</u>	<u>2,539,852</u>	<u>6,124,138</u>
TOTAL NET POSITION	<u>7,881,990</u>	<u>25,068,243</u>	<u>32,950,233</u>	<u>7,499,787</u>	<u>25,123,470</u>	<u>32,623,257</u>
TOTAL LIABILITIES, DEFERRED INFLOW, AND NET POSITION						
	<u>\$ 10,994,094</u>	<u>\$ 39,239,434</u>	<u>\$ 50,233,528</u>	<u>\$ 10,256,026</u>	<u>\$ 37,677,928</u>	<u>\$ 47,933,954</u>

The Town of Thurmont has sufficient funds to meet the requirements for cash outflows for the next fiscal year as well as for capital improvements. At the end of the current fiscal year, The Town is able to report positive balances in all categories of net position in the governmental and business-type activities.

CONDENSED STATEMENT OF CHANGES IN NET POSITION

For the years ended June 30,

	2016			2015		
	Governmental	Business	Total	Governmental	Business	Total
	Activities	Type Activities	Government	Activities	Type Activities	Government
Revenues						
Program Revenues						
Charges for services	\$ 167,535	\$ 8,695,174	\$ 8,862,709	\$ 152,754	\$ 8,990,409	\$ 9,143,163
Operating grants	1,215,915	-	1,215,915	1,708,487	-	1,708,487
Capital contributions	-	40,000	40,000	-	5,000	5,000
General Revenues						
Property taxes	1,586,806	-	1,586,806	1,597,882	-	1,597,882
Income taxes	736,331	-	736,331	640,340	-	640,340
Gasoline and motor taxes	218,483	-	218,483	196,853	-	196,853
Other taxes	15,114	-	15,114	15,848	-	15,848
Grants	-	57,000	57,000	-	412,428	412,428
Income from contract work	-	49,147	49,147	-	89,230	89,230
Interest income	11,544	25,317	36,861	12,537	29,546	42,083
Other general revenues	-	103,893	103,893	-	43,293	43,293
Other income	-	-	-	252,260	378,386	630,646
Gain on sale of assets	-	650	650	-	-	-
Transfers in	-	-	-	51,000	-	51,000
Total Revenues	<u>3,951,728</u>	<u>8,971,181</u>	<u>12,922,909</u>	<u>4,627,961</u>	<u>9,948,292</u>	<u>14,576,253</u>
Program Expenses						
General government	1,350,149	-	1,350,149	1,261,904	-	1,261,904
Public safety	975,093	-	975,093	1,037,924	-	1,037,924
Public works	286,763	-	286,763	283,431	-	283,431
Highways and streets	297,529	-	297,529	261,841	-	261,841
Recreation and parks	142,995	-	142,995	135,590	-	135,590
Depreciation and amortization	493,274	1,314,640	1,807,914	422,436	1,237,091	1,659,527
Interest on long-term debt	23,722	209,159	232,881	54,949	233,260	288,209
Transfers out	-	-	-	-	51,000	51,000
Sewer	-	891,007	891,007	-	841,228	841,228
Water	-	650,126	650,126	-	688,540	688,540
Electric	-	5,961,476	5,961,476	-	6,264,741	6,264,741
Total Program Expenses	<u>3,569,525</u>	<u>9,026,408</u>	<u>12,595,933</u>	<u>3,458,075</u>	<u>9,315,860</u>	<u>12,773,935</u>
Change in Net Position	<u>\$ 382,203</u>	<u>\$ (55,227)</u>	<u>\$ 326,976</u>	<u>\$ 1,169,886</u>	<u>\$ 632,432</u>	<u>\$ 1,802,318</u>

Commissioners of Thurmont's Changes in Net Position

Governmental activities. Governmental activities increased the Town's net position by \$382,203. Key elements of this increase are as follows:

1. Investment in the amount of \$721,181 for infrastructure and equipment improvements.
2. Depreciation expense of \$493,274 to allocate capital investment expenditures over the life of the assets.
3. Operating grants received of \$1,215,915.
4. General revenues from various types of taxes of \$2,556,734.
5. Governmental expenses of \$3,076,251

Total revenues from the governmental activities decreased by \$625,233. Operating grants decreased \$492,572, and the gasoline and motor tax increased \$95,991. There was also other income of \$252,260 received in the prior year due to the transfer of retirement funds from the Fiduciary Fund to the State of Maryland retirement system, there was no such revenue in the current year. For the prior year a corresponding expense for this amount for the payment to the State of Maryland is included within total expenses.

Total expenses increased by \$111,450 due to various factors. Depreciation expense increased by \$70,838 due to the property and equipment added in the prior and current years. The general government expenses increased \$40,612 from the prior year.

Business-type activities. Business-type activities decreased the Town's net position by \$55,227. Key elements of this decrease are as follows:

1. New grant funding of \$57,000 received for the sewer system upgrades.
2. Charges for services of \$8,677,174 and other revenues of \$178,357.
3. Business-related expenses of \$9,026,408

The business-type activities produced \$8,971,181 in total revenues, an amount that is \$977,111 less than fiscal 2015 revenues largely due to the receipt of \$355,428 less in grants than the prior year, charges for services were \$295,235 less than the prior year, and other income was \$378,386 less than the prior year which related to the transfer of retirement funds from the Fiduciary Fund to the State of Maryland retirement system. Income from contract work was \$40,083 less than the prior year. Operating expenses decreased from the prior year by \$289,452, largely due to a decrease in the general Electric Fund expenses of \$303,265.

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 \$4,923,184, an increase of \$85,281 in comparison with the prior year balance of \$4,837,903. The increase in the governmental fund is primarily due to the intergovernmental revenue received. Capital assets are not included within the governmental fund balance. The fund balance of the governmental fund is composed of \$1,072,929 in funds committed for specific future uses and \$3,850,255 of unassigned fund balance which is available for spending at the government’s discretion. \$31,500 of the unassigned fund balance will be used to complete the paving project that began in FY16.

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 amounts on the fund basis as they are in the government-wide financial statements.

Unrestricted net position of the proprietary funds at the end of the year totaled \$2,592,913, a \$53,061 increase over the prior year. This is due to the fact that grant revenues are being reinvested in the Sewer Fund’s infrastructure. The proprietary funds had an overall decrease in net position for the year of \$55,227. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town’s business-type activities. The Electric Fund plans to utilize \$25,000 of the unrestricted fund balance for the purchase of air switches. The Wastewater Fund utilized \$26,208 of the unrestricted fund balance to replace two sludge pumps originally budgeted for in FY16.

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, 2016, amounts to \$38,506,975 (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 increase in the Town’s investment in net capital assets for the current fiscal year was \$1,239,030.

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

	Project Amount
Water System Improvements	\$ 31,762
Sewer System Improvements	1,809,325
General Capital Improvements	721,181
Electric System Improvements	484,677

Additional information on the Town’s capital assets can be found in Note 5 of the accompanying financial statements.

Town of Thurmont’s Outstanding Debt at June 30, 2016. The Town’s total debt increased by \$932,530 (or 8.66%) during the current fiscal year. The following schedule shows the balances outstanding at June 30, 2016:

	Governmental Activities	Business-type Activities	Total
Loans and leases outstanding	\$ 986,000	\$ -	\$ 986,000
General obligation bonds	-	10,689,731	10,689,731
Total Debt	<u>\$ 986,000</u>	<u>\$ 10,689,731</u>	<u>\$ 11,675,731</u>

The Town obtained one new bond obligation in the Sewer Fund. 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 2016-2017 fiscal year:

1. Population will remain stable during the year.
2. The current tax rate will remain stable at \$.3017 per \$100 of assessed valuation.

During the 2016-2017 fiscal year, the Town of Thurmont appropriated funds to finance various capital improvements:

Budgeted Outlay

1. General capital improvements	\$ 463,727
2. Water improvements	126,000
3. Sewer improvements	306,725
4. Electric improvements	245,000

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 Position

June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 3,853,405	\$ 3,533,762	\$ 7,387,167
Restricted cash	1,087,268	1,086,211	2,173,479
Prepaid expenses	66,524	47,143	113,667
Net receivables	16,914	608,550	625,464
Due from (to) other funds	85,328	(85,328)	-
Inventories	-	151,855	151,855
Total current assets	<u>5,109,439</u>	<u>5,342,193</u>	<u>10,451,632</u>
Noncurrent assets:			
Due from other governments	156,669	-	156,669
Net receivables	-	14,844	14,844
Net capital assets	<u>5,341,914</u>	<u>33,165,061</u>	<u>38,506,975</u>
Total Assets	<u>10,608,022</u>	<u>38,522,098</u>	<u>49,130,120</u>
Deferred Outflow of Resources:			
Deferred outflows from pensions	386,072	579,107	965,179
Deferred outflows from debt refunding	-	138,229	138,229
Total Deferred Outflows	<u>386,072</u>	<u>717,336</u>	<u>1,103,408</u>
Total Assets and Deferred Outflows	<u>\$ 10,994,094</u>	<u>\$ 39,239,434</u>	<u>\$ 50,233,528</u>

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

The Commissioners of Thurmont, Maryland

Statement of Net Position (continued)

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 364,294	\$ 826,608	\$ 1,190,902
Bond interest payable	2,974	43,225	46,199
Customers' and developers' deposits	14,339	33,316	47,655
Total current liabilities	<u>381,607</u>	<u>903,149</u>	<u>1,284,756</u>
Noncurrent liabilities:			
Bonds and note due within one year	157,000	967,638	1,124,638
Bonds and note due in more than one year	829,000	9,722,093	10,551,093
Capital lease payable due within one year	25,625	-	25,625
Net pension liabilities due in more than one year	<u>1,579,364</u>	<u>2,369,046</u>	<u>3,948,410</u>
Total noncurrent liabilities	<u>2,590,989</u>	<u>13,058,777</u>	<u>15,649,766</u>
Total Liabilities	<u>2,972,596</u>	<u>13,961,926</u>	<u>16,934,522</u>
Deferred Inflow of Resources -			
Deferred inflow of resources from pensions	<u>139,508</u>	<u>209,265</u>	<u>348,773</u>
Net Position:			
Net investment in capital assets	4,330,289	22,475,330	26,805,619
Unrestricted	<u>3,551,701</u>	<u>2,592,913</u>	<u>6,144,614</u>
Total Net Position	<u>7,881,990</u>	<u>25,068,243</u>	<u>32,950,233</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 10,994,094</u>	<u>\$ 39,239,434</u>	<u>\$ 50,233,528</u>

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, 2016

Functions/Programs	Expenses	Program Services			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Grants and Contributions			
Primary government							
Governmental activities:							
General government	\$ 1,422,821	\$ 18,520	\$ 1,008,561	\$ -	\$ (395,740)	\$ -	\$ (395,740)
Public safety	1,126,958	-	104,272	-	(1,022,686)	-	(1,022,686)
Public works	317,391	149,015	-	-	(168,376)	-	(168,376)
Highways and streets	433,836	-	-	-	(433,836)	-	(433,836)
Recreation and parks	244,797	-	103,082	-	(141,715)	-	(141,715)
Interest on long-term debt	23,722	-	-	-	(23,722)	-	(23,722)
Total governmental activities	<u>3,569,525</u>	<u>167,535</u>	<u>1,215,915</u>	<u>-</u>	<u>(2,186,075)</u>	<u>-</u>	<u>(2,186,075)</u>
Business-type activities:							
Sewer	1,847,274	1,648,974	-	50,000	-	(148,300)	(148,300)
Water	852,729	969,652	-	20,000	-	136,923	136,923
Electric	6,326,405	6,229,588	-	27,000	-	(69,817)	(69,817)
Total business-type activities	<u>9,026,408</u>	<u>8,848,214</u>	<u>-</u>	<u>97,000</u>	<u>-</u>	<u>(81,194)</u>	<u>(81,194)</u>
Total primary government	<u>\$ 12,595,933</u>	<u>\$ 9,015,749</u>	<u>\$ 1,215,915</u>	<u>\$ 97,000</u>	<u>\$ (2,186,075)</u>	<u>\$ (81,194)</u>	<u>\$ (2,267,269)</u>
General revenues:							
Taxes:							
					736,331	-	736,331
					1,586,806	-	1,586,806
					218,483	-	218,483
					15,114	-	15,114
					-	650	650
					11,544	25,317	36,861
					<u>2,568,278</u>	<u>25,967</u>	<u>2,594,245</u>
					382,203	(55,227)	326,976
					7,499,787	25,123,470	32,623,257
					<u>\$ 7,881,990</u>	<u>\$ 25,068,243</u>	<u>\$ 32,950,233</u>

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

The Commissioners of Thurmont, Maryland
Balance Sheet - Governmental Fund

June 30, 2016

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 3,853,405
Taxes receivable	16,914
Due from proprietary funds	85,328
Due from other governments	156,669
Prepaid expense	66,524
Restricted cash	<u>1,087,268</u>
Total Assets	<u>\$ 5,266,108</u>
Liabilities:	
Accounts payable and accrued liabilities	\$ 328,585
Customer and developer deposits	<u>14,339</u>
Total liabilities	<u>342,924</u>
Fund Balances:	
Committed - future capital outlay and emergency fund	1,072,929
Unassigned	<u>3,850,255</u>
Total fund balances	<u>4,923,184</u>
Total Liabilities and Fund Balances	<u>\$ 5,266,108</u>
Total Fund Balances - Governmental Fund	\$ 4,923,184
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.	5,341,914
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Capital lease payable	\$ (25,625)
Accrued compensated absences	(35,709)
Long-term debt	<u>(988,974)</u>
	(1,050,308)
Net pension liability, deferred inflows and deferred outflows related to pension are calculated by actuarial valuation and are included only in the statement of net position	<u>(1,332,800)</u>
Net Assets of Governmental Activities	<u>\$ 7,881,990</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 (continued)

For the year ended June 30, 2016

	General Fund
Revenues:	
Taxes	\$ 2,556,734
Intergovernmental	1,215,915
Charges for services	149,015
Fines, licenses and permits	18,520
Interest income	11,544
Total revenues	<u>3,951,728</u>
Expenditures:	
Current:	
General government	1,265,164
Public safety	975,093
Public works	286,763
Highways and streets	297,529
Recreation and parks	142,995
Total current expenditures	<u>2,967,544</u>
Debt service:	
Principal	154,000
Interest	23,722
Total debt service expense	<u>177,722</u>
Capital outlay	<u>721,181</u>
Total expenditures	<u>3,866,447</u>
Excess of revenues over expenditures	85,281
Fund balances, beginning of year	<u>4,837,903</u>
Fund balances, end of year	<u><u>\$ 4,923,184</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, 2016

	General Fund
Change in Net Assets of Governmental Activities	<u>\$ 382,203</u>
<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	(721,181)
Depreciation expense	<u>493,274</u>
	(227,907)
<p>Repayment and retirement 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.</p>	(154,000)
<p>Net pension expense transactions based on actuarial calculations to determine net pension liabilities are not included in the governmental financial statements.</p>	65,037
<p>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.</p>	20,413
<p>Bond interest payable</p>	<u>(465)</u>
Net change in Fund Balances - Governmental Fund	<u><u>\$ 85,281</u></u>

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

The Commissioners of Thurmont, Maryland

Statement of Net Position - Proprietary Funds

June 30, 2016

	Business - Type Funds			
	Sewer	Water	Electric	Total
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,218,908	\$ 1,217,112	\$ 1,097,742	\$ 3,533,762
Restricted cash	499,272	402,485	184,454	1,086,211
Prepaid expense	12,546	11,141	23,456	47,143
Net receivables	28,984	35,171	544,395	608,550
Inventories	1,855	28,236	121,764	151,855
Total current assets	1,761,565	1,694,145	1,971,811	5,427,521
Noncurrent assets:				
Net receivables	14,844	-	-	14,844
Net capital assets	21,440,678	5,795,405	5,928,978	33,165,061
Total Assets	<u>23,217,087</u>	<u>7,489,550</u>	<u>7,900,789</u>	<u>38,607,426</u>
Deferred Outflows of Resources:				
Deferred outflows from pensions	115,821	135,125	328,161	579,107
Deferred outflows from debt refunding	-	-	138,229	138,229
Total Deferred Outflows	<u>115,821</u>	<u>135,125</u>	<u>466,390</u>	<u>717,336</u>
Total Assets and Deferred Outflows	<u>\$ 23,332,908</u>	<u>\$ 7,624,675</u>	<u>\$ 8,367,179</u>	<u>\$ 39,324,762</u>

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

The Commissioners of Thurmont, Maryland

Statement of Net Position - Proprietary Funds

June 30, 2016

	Business - Type Funds			
	Sewer	Water	Electric	Total
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 101,723	\$ 37,008	\$ 687,877	\$ 826,608
Due to other funds	608,403	(67,043)	(456,032)	85,328
Customers' and developers' deposits payable from restricted assets	-	3,462	29,854	33,316
Bonds and notes payable - current portion	431,622	186,730	349,286	967,638
Bond interest payable	32,091	4,751	6,383	43,225
Total current liabilities	<u>1,173,839</u>	<u>164,908</u>	<u>617,368</u>	<u>1,956,115</u>
Noncurrent liabilities:				
Bonds and notes due in more than one year	5,837,276	792,500	3,092,317	9,722,093
Net pension liabilities	473,809	552,777	1,342,460	2,369,046
Total noncurrent liabilities:	<u>6,311,085</u>	<u>1,345,277</u>	<u>4,434,777</u>	<u>12,091,139</u>
Total Liabilities	<u>7,484,924</u>	<u>1,510,185</u>	<u>5,052,145</u>	<u>14,047,254</u>
Deferred Inflow of Resources -				
Deferred infows from pensions	41,853	48,829	118,583	209,265
Net Position:				
Net investment in capital assets	15,171,780	4,816,175	2,487,375	22,475,330
Unrestricted	634,351	1,249,486	709,076	2,592,913
Total Net Position	<u>15,806,131</u>	<u>6,065,661</u>	<u>3,196,451</u>	<u>25,068,243</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 23,332,908</u>	<u>\$ 7,624,675</u>	<u>\$ 8,367,179</u>	<u>\$ 39,324,762</u>

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 Position -
Proprietary Funds**

For the year ended June 30, 2016

	Business - Type Funds			
	Sewer	Water	Electric	Total
Operating revenues:				
Charges for services	\$ 1,648,974	\$ 935,401	\$ 6,110,799	\$ 8,695,174
Contract work	-	34,251	14,896	49,147
Miscellaneous	-	-	103,893	103,893
Total operating revenues	<u>1,648,974</u>	<u>969,652</u>	<u>6,229,588</u>	<u>8,848,214</u>
Operating expenses:				
Purchased power	-	-	4,455,965	4,455,965
System maintenance	590,720	345,527	335,047	1,271,294
Depreciation and amortization	863,697	181,639	269,304	1,314,640
General and administrative	300,287	304,599	1,170,464	1,775,350
Total operating expenses	<u>1,754,704</u>	<u>831,765</u>	<u>6,230,780</u>	<u>8,817,249</u>
Operating (loss) income	<u>(105,730)</u>	<u>137,887</u>	<u>(1,192)</u>	<u>30,965</u>
Non-operating revenues (expenses):				
Intergovernmental grant	30,000	-	27,000	57,000
Interest income	14,350	10,575	392	25,317
Gain on sale of assets	500	150	-	650
Interest expense	(92,570)	(20,964)	(95,625)	(209,159)
Net non-operating expenses	<u>(47,720)</u>	<u>(10,239)</u>	<u>(68,233)</u>	<u>(126,192)</u>
Capital contributions	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>40,000</u>
Change in net position	(133,450)	147,648	(69,425)	(55,227)
Net position, beginning of year	<u>15,939,581</u>	<u>5,918,013</u>	<u>3,265,876</u>	<u>25,123,470</u>
Net position, end of year	<u>\$ 15,806,131</u>	<u>\$ 6,065,661</u>	<u>\$ 3,196,451</u>	<u>\$ 25,068,243</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, 2016

	Business - Type Funds			
	Sewer	Water	Electric	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,678,423	\$ 956,903	\$ 6,108,738	\$ 8,744,064
Cash paid to suppliers for operations	(709,924)	(390,825)	(5,399,091)	(6,499,840)
Cash paid to employees for salaries, payroll taxes and benefits	(272,377)	(213,661)	(380,038)	(866,076)
Net cash provided by operating activities	<u>696,122</u>	<u>352,417</u>	<u>329,609</u>	<u>1,378,148</u>
Cash flows from capital and related financing activities:				
Proceeds from bonds	1,803,523	-	-	1,803,523
Proceeds from sale of asset	500	150	-	650
Capital contributions and intergovernmental grants	113,068	20,000	27,000	160,068
Purchases and construction of capital assets	(1,809,325)	(31,762)	(484,677)	(2,325,764)
Principal paid on bonds and notes	(321,827)	(183,484)	(178,800)	(684,111)
Interest paid on bonds and notes	(93,683)	(22,003)	(100,909)	(216,595)
Other debt related costs	-	-	15,359	15,359
Net cash used in capital and related financing activities	<u>(307,744)</u>	<u>(217,099)</u>	<u>(722,027)</u>	<u>(1,246,870)</u>
Cash flows from investing activities -				
Interest and dividends	<u>14,350</u>	<u>10,575</u>	<u>392</u>	<u>25,317</u>
Net increase (decrease) in cash and cash equivalents	402,728	145,893	(392,026)	156,595
Cash and cash equivalents, beginning of year (including \$375,000 for the Sewer Fund, \$188,462 for the Water Fund and \$107,644 for the Electric Fund reported in restricted cash)				
	<u>1,315,452</u>	<u>1,473,704</u>	<u>1,674,222</u>	<u>4,463,378</u>
Cash and cash equivalents, end of year (including \$499,272 for the Sewer Fund, \$523,191 for the Water Fund and \$184,454 for the Electric Fund reported in restricted cash)				
	<u>\$ 1,718,180</u>	<u>\$ 1,619,597</u>	<u>\$ 1,282,196</u>	<u>\$ 4,619,973</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating (loss) income	\$ (105,730)	\$ 137,887	\$ (1,192)	\$ 30,965
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization expense	863,697	181,639	269,304	1,314,640
Changes in assets and liabilities:				
Receivables - net of allowances	29,449	(12,748)	(120,850)	(104,149)
Prepaid expense	(12,546)	(11,141)	(23,456)	(47,143)
Inventories	-	2,438	(11,081)	(8,643)
Accounts and other payables	(132,257)	(5,999)	81,824	(56,432)
Accrued expenses	7,639	6,826	5,096	19,561
Net pension liability	45,870	53,515	129,964	229,349
Net cash provided by operating activities	<u>\$ 696,122</u>	<u>\$ 352,417</u>	<u>\$ 329,609</u>	<u>\$ 1,378,148</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, 2016

	Budgeted Amounts		Modified	Variance
	Original	Final	Accrual Actual	Positive (Negative)
Revenues:				
Taxes	\$ 2,428,816	\$ 2,428,816	\$ 2,556,734	\$ 127,918
Intergovernmental	912,838	912,838	1,215,915	303,077
Interest earned	5,000	5,000	11,544	6,544
Charges for services	111,560	111,560	149,015	37,455
Licenses and permits	4,000	4,000	18,520	14,520
Miscellaneous	1,500	1,500	-	(1,500)
Total revenues	<u>3,463,714</u>	<u>3,463,714</u>	<u>3,951,728</u>	<u>488,014</u>
Expenditures:				
Current:				
General government	1,076,816	1,076,816	1,265,164	(188,348)
Public safety	1,048,676	1,048,676	975,093	73,583
Public works	265,000	265,000	286,763	(21,763)
Highways and streets	287,411	292,177	297,529	(5,352)
Recreation and parks	145,000	145,000	142,995	2,005
Total current expenditures	<u>2,822,903</u>	<u>2,827,669</u>	<u>2,967,544</u>	<u>(139,875)</u>
Debt service:				
Principal	131,315	131,315	154,000	(22,685)
Interest	20,634	20,634	23,722	(3,088)
Total debt service expense	<u>151,949</u>	<u>151,949</u>	<u>177,722</u>	<u>(25,773)</u>
Capital outlay	<u>300,132</u>	<u>318,690</u>	<u>721,181</u>	<u>(402,491)</u>
Total expenditures	<u>3,274,984</u>	<u>3,298,308</u>	<u>3,866,447</u>	<u>(568,139)</u>
Excess of revenues over expenditures	<u>\$ 188,730</u>	<u>\$ 165,406</u>	<u>\$ 85,281</u>	<u>\$ (80,125)</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, 2016

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 business activities. The Fiduciary Fund is reported separately in the Statement of Net Position - Fiduciary Fund and the Statement of Changes in Net Position - 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 was one legally adopted amendments made to the general fund budget for the fiscal-year end 2016.

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, 2016

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 Position, 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 positions are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. 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 and amortization) 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 position resulting from the current year's activities.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

(E) Basic Financial Statements – Fund Financial Statements

Governmental Accounting Standards Board (GASB) Statement No.54 – *Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the Commissioners are bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

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 position, 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of services, administrative

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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

Proprietary Fund Types (continued)

expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 position and changes in net position. 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.

(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

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

(G) Financial Statement Accounts (continued)

1. Cash and Cash Equivalents (continued)

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.

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
Electric system	30 - 50 years
Machinery and equipment	5 - 10 years
Improvements	10 - 20 years
Other infrastructure	10 - 50 years
Intangible assets	5 - 99 years

Intangible assets lack physical substance, are nonfinancial in nature, and have an estimated useful life extending beyond a single reporting period. The term depreciation, as used in this footnote, includes amortization of intangible assets.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

(G) Financial Statement Accounts (continued)

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. Grants and contributions include an intergovernmental tax equity grant and a police grant. Capital contributions represent water and sewer connection fees.

At June 30, 2016, receivables in the governmental and proprietary funds are reported net of \$-0- and \$286,000 of allowances for uncollectible accounts, respectively. There was no bad debt expense recorded within the general governmental activities or within the general and administrative expenses of the proprietary funds for the year ended June 30, 2016.

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 reports only matured compensated absences payable to currently terminating employees and are included in accrued liabilities.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

(G) Financial Statement Accounts (continued)

7. **Compensated Absences** (continued)

The government-wide statements include accrued compensated absences of \$138,320 in the governmental and business-type activities at June 30, 2016.

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.

9. **Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium discount. Bond issuance costs are reported as an expense in the year of issuance per GASB Statement 65.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

(H) Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Town Commissioners. The Town Commissioners are the highest level of decision making authority for the Town. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commissioners. The Commissioners have set aside a \$250,000 reserve fund within the committed net position of the governmental fund to be used for emergencies only. Additionally, the Commissioners have set aside funds to be used for future capital outlay of \$822,929.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for a specific purpose by the Commissioners.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commissioners consider restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Commissioners consider amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Commissioners have provided otherwise in their commitment or assignment actions.

(I) 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.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

1. Summary of Significant Accounting Policies (continued)

(J) 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.

(K) 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 and 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.

Deposits

Deposits totaling \$1,206,115 of the Commissioners are held at one bank in the form of business money market accounts. Additionally, there are overnight repurchase agreements totaling \$8,484,539 held within a bank. Net deposits in transit and outstanding checks totaling \$130,008 did not pass through the financial institution until after June 30, 2016.

There are securities totaling \$9,558,833 held as collateral for deposits at one of the financial institution's trust department in the entity's name. All funds held at the financial institution are covered fully by collateral less funds covered by the FDIC limit of \$250,000.

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:

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

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

Deposits (continued)

<u>Type of Repurchase Agreements</u>	<u>Balance of Repurchase Agreements</u>	<u>Cost & Fair Value of Collateral</u>	<u>Average Credit Quality Ratings(1)</u>	<u>Weighted Average Days to Maturity</u>
Total Repurchase Agreements	\$ 8,484,539			
Governmental and Proprietary Funds:				
Federal National Mortgage Association		\$ 9,558,833	N/A	1
Total governmental and proprietary funds		<u>\$ 9,558,833</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.

Cash and Cash Equivalent Overnight Repurchase Agreement Investments

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.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

3. Restricted Cash

Restricted cash in the business-type activities consists of the following at June 30, 2016:

<u>Business-Type Activities</u>	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Refundable deposits	\$ -	\$ 3,462	\$ 29,854	\$ 33,316
Commissioner restricted	<u>499,272</u>	<u>399,023</u>	<u>154,600</u>	<u>1,052,895</u>
Total Restricted cash	<u>\$ 499,272</u>	<u>\$ 402,485</u>	<u>\$ 184,454</u>	<u>\$ 1,086,211</u>

Restricted cash in the governmental activities consists of the following at June 30, 2016:

<u>Governmental Activities</u>	<u>General</u>
Refundable deposits	\$ 14,339
Commissioner restricted	<u>1,072,929</u>
Total Restricted cash	<u>\$ 1,087,268</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

4. Capital Assets and Depreciation

Capital asset activity for the year ended June 30, 2016 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	\$ 1,109,940	\$ 56,634	\$ -	\$ 1,166,574
Subtotal	<u>1,109,940</u>	<u>56,634</u>	<u>-</u>	<u>1,166,574</u>
Other capital assets:				
Buildings and improvements	3,723,822	57,055	-	3,780,877
Recreational parks	1,542,831	62,525	-	1,605,356
Streets and drains	4,615,597	381,799	-	4,997,396
Equipment	<u>2,079,201</u>	<u>163,167</u>	<u>-</u>	<u>2,242,368</u>
Subtotal	<u>11,961,451</u>	<u>664,546</u>	<u>-</u>	<u>12,625,997</u>
Accumulated depreciation:				
Buildings and improvements	1,190,078	176,516	-	1,366,594
Recreational parks	1,041,595	101,802	-	1,143,397
Streets and drains	4,097,747	136,307	-	4,234,054
Equipment	<u>1,627,963</u>	<u>78,649</u>	<u>-</u>	<u>1,706,612</u>
Subtotal	<u>7,957,383</u>	<u>493,274</u>	<u>-</u>	<u>8,450,657</u>
Net other capital assets	<u>4,004,068</u>	<u>171,272</u>	<u>-</u>	<u>4,175,340</u>
Net capital assets	<u>\$ 5,114,008</u>	<u>\$ 227,906</u>	<u>\$ -</u>	<u>\$ 5,341,914</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General governmental	\$ 72,672
Public safety	151,865
Public works	30,628
Highways and streets	136,307
Recreation and parks	<u>101,802</u>
Total governmental activities depreciation expense	<u>\$ 493,274</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

4. Capital Assets and Depreciation (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type activities:</u>				
Not being depreciated:				
Land	\$ 412,763	\$ -	\$ -	\$ 412,763
Construction in progress	3,743,482	1,853,683	(3,743,483)	1,853,682
Subtotal	<u>4,156,245</u>	<u>1,853,683</u>	<u>(3,743,483)</u>	<u>2,266,445</u>
Other capital assets:				
Buildings/improvements	5,118,972	-	-	5,118,972
Equipment	44,189,047	472,081	3,743,483	48,404,611
Intangible asset	5,000	-	-	5,000
Subtotal	<u>49,313,019</u>	<u>472,081</u>	<u>3,743,483</u>	<u>53,528,583</u>
Accumulated depreciation:				
Buildings/improvements	1,963,955	111,587	-	2,075,542
Equipment	19,351,372	1,203,053	-	20,554,425
Subtotal	<u>21,315,327</u>	<u>1,314,640</u>	<u>-</u>	<u>22,629,967</u>
Net other capital assets	<u>27,997,692</u>	<u>(842,559)</u>	<u>3,743,483</u>	<u>30,898,616</u>
Net capital assets	<u>\$ 32,153,937</u>	<u>\$ 1,011,124</u>	<u>\$ -</u>	<u>\$ 33,165,061</u>

Depreciation was charged to business-type functions as follows:

Business-type activities:	
Sewer	\$ 863,697
Water	181,639
Electric	<u>269,304</u>
Total business-type activities depreciation expense	<u>\$ 1,314,640</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

5. Capital Lease Payable

Capital lease payable consists of one vehicle lease that is capitalized at its incremental borrowing rates of 6.0%. The original capitalized lease obligations totaling \$76,961 has been reduced to \$25,625 at June 30, 2016. The related assets are being depreciated over their estimated useful life and are included in the equipment (police vehicles) category at \$76,961.

Payments on the lease were \$27,162 (including interest of \$2,988) for the year ended June 30, 2016. The lease matures in September 2016.

Future minimum payments, by year and in the aggregate, under the capital lease consist of the following at June 30, 2016:

Total minimum lease payment due in fiscal years:	
2017	<u>\$ 27,162</u>
Total minimum lease payments due	27,162
Less amount representing interest	<u>(1,537)</u>
Present value of net minimum payments	<u>\$ 25,625</u>

6. Governmental Note and Bond Payable

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 original interest rate on this loan was 4.09%. The loan required semi-annual payments of principal and interest beginning October 2007 and maturing April 30, 2022. The full faith and credit and unlimited taxing power of the Town were pledged against the note.

In September 2014, this note payable was refinanced. The refinance agreement advance refunds the callable maturities of the bonds and pays issuance costs of \$17,773. The Commissioners continued to make the required semi-annual payments on the 2007 General Obligation note through May 2015, at which time the bonds were called at 102%, and refinanced. On May 1, 2015, the Commissioners begin making semiannual principal and interest payments on 2014B General Obligation Refunding Bond Funds. Funds totaling \$1,150,226 from this \$1,168,000 General Obligation Refunding Bond Series 2014B were placed into escrow. Principal of \$1,084,350 within the escrow fund established in September 2014 was withdrawn in May 2015 to pay off the call provision of the 2007 General Obligation Note Payable. The Series 2014B Bond matures in May 1, 2022. The interest rate on the Series 2014B Bond is 1.81%. The refunding of the bond decreased the Town's total debt service payments over the next 7 years by \$37,886. The defeasance resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$39,613.

For the year ended June 30, 2016, interest of \$23,722 was paid on these notes. The balance outstanding on the 2014B General Obligation Refunding Bond at June 30, 2016 was \$986,000.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

6. Governmental Note and Bond Payable (continued)

A summary of the debt service requirements to maturity by year at June 30, is as follows:

Years Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 157,000	\$ 17,846
2018	160,000	15,004
2019	163,000	12,108
2020	166,000	9,159
2021	168,000	6,154
2022 - 2026	172,000	3,113
	<u>\$ 986,000</u>	<u>\$ 63,384</u>

7. Bonds Payable – General Obligation – Business Activities

At June 30, 2016, 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; refinanced in September 2014 through Series 2014A Bond.	2009 - 2026	\$ 1,981,000	2.10%
Water Utility	Drinking Water Bonds, Series 1999 dated June 16, 1999; Original issue amount - \$2,243,740; refinanced in September 2014 with Series 2014C Bond.	2009 - 2020	573,000	1.65%

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

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	\$ 451,606	0.40%
Sewer Utility	General Obligation Water Quality Bond Series 2011 dated February 25, 2011; Original issue amount - \$1,700,000.	2013 - 2032	1,423,649	2.50%
Electric, Water, and Sewer Utility	General Obligation Bond Series 2012A dated June 14, 2012; Original issue amount - \$2,908,498.	2012 - 2031	2,084,647	2.396%
Sewer Utility	General Obligation Water Quality Bond Series 2013 dated September 27, 2013; Original issue amount - \$2,815,000; amount drawn \$2,607,685	2013 - 2034	2,472,707	1.10%
Sewer Utility	General Obligation Water Quality Bond Series 2015 dated November 20, 2015; Original issue amount - \$2,277,681; amount drawn \$1,703,122	2017 - 2036	1,703,122	0.70%
	Total		<u>\$ 10,689,731</u>	

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

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

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. On September 30, 2014, the 2006 Series A Bonds were refinanced through the issuance of \$2,001,000 in General Obligation Refunding Bonds, Series 2014A. The refinance agreement advance refunds the callable maturities of the bonds and pays issuance costs of \$30,253. The Commissioners will continue to make the required semi-annual payments on the 2006 General Obligation bonds through June 1, 2016, at which time the bonds will be called at 100%. Funds totaling \$1,943,076 from this \$2,001,000 General Obligation Refunding Bond, Series 2014A, were placed into escrow and \$27,671 was utilized to payoff fees related to the Series 2006A Bond. On June 1, 2015, the Commissioners began to make semiannual principal and interest payments on the 2014A General Obligation Refunding Bond Funds. The Series 2014A Bond matures on June 1, 2026. The interest rate on the Series 2014A Bond is 2.1%. The refunding of the bond decreased the Town's total debt service payments over the next 11 years by \$119,142. The defeasance resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$112,580.

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. On September 30, 2104, the Series 1999 Drinking Water Bonds were paid in full with the proceeds received from a Series 2014C General Obligation Refunding Bond. The Series 2014C Bond was issued for \$805,000, of which \$792,777 repaid the 1999 Series Bond principal and interest, and \$12,223 represented bond issuance costs. The Series 2014C Bond requires semi-annual principal and interest payments and matures on February 1, 2020. The interest rate on the Series 2014C Bonds is 1.65%. The refunding of the bond decreased the Town's total debt service payments over the next 6 years by \$37,169. The defeasance resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$37,223.

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, 2016

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. 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 Water Quality 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.

During February 2011, the Water Quality Bond, Series 2011, was issued to finance the improvements to the wastewater treatment facility. The Bond was authorized for an issuance amount of \$1,700,000. At June 30, 2013, \$1,700,000 had been drawn with \$94,931 of draws occurring during the year ended June 30, 2013. Repayment is required over a twenty-year period with the first payment due February 2013. Thereafter, principal payments are due each February and semi-annual payments of interest are due each August and February. An administrative fee is due each August. Semi-annual payments of interest and the yearly administrative fees began in August 2011.

In June 2012, the Town obtained a General Obligation Bond Series 2012A. The bond was issued to finance electric fund improvements and to refinance both the Water Utility's 1988 Series A Infrastructure Bonds and the Sewer Utility's General Obligation Sewer System Bond dated December 7, 1983. Repayment of the General Obligation Bond Series 2012A is required over a twenty-year period with the first principal payment due December 1, 2012. Annual payments are due in December and semi-annual payments of interest are due each June and December. The Commissioners may prepay the bond without penalty from the date of closing through the fifth anniversary of the closing date. From the fifth anniversary date to the final maturity date, a prepayment/cost recovery provision will be charged.

In September 2013, the Town obtained a Water Quality Bond, Series 2013 to finance improvements to the wastewater treatment facility. In 2014, \$1,150,145 was drawn on the available principal balance and in 2015, an additional \$1,357,139 was drawn on the available principal balance, and in 2016, an additional \$100,401 was drawn on the available principal balance for a total \$2,607,685 drawn on the available principal amount of \$2,815,000. Repayment is required over a twenty-year period with annual principal payment due each February and semi-annual payments of interest are due each August and February. An administrative fee is due each August. Semi-annual payments of interest and the yearly administrative fees began in August 2015.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

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

In November 2015, the Town obtained a Water Quality Bond, Series 2015 to finance improvements to the wastewater treatment facility. In 2016, \$1,703,122 was drawn on the available principal balance amount of \$2,277,681. Repayment is required over a twenty-year period with annual principal payment due each February and semi-annual payments of interest are due each August and February. Semi-annual payments of interest and the yearly administrative fees began in August 2016

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.

Bonds and Notes Payable

Following is a summary of long-term debt transactions for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Note and bonds payable	<u>\$ 1,140,000</u>	<u>\$ 1,803,523</u>	<u>\$ (499,827)</u>	<u>\$ 2,443,696</u>
<u>Business-type activities:</u>				
General obligation bonds	<u>\$ 9,570,319</u>	<u>\$ 1,803,523</u>	<u>\$ (684,111)</u>	<u>\$ 10,689,731</u>

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

Governmental notes payable	\$ 157,000
General obligation bonds	<u>967,638</u>
	<u>\$ 1,124,638</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

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

Bonds and Notes Payable

A summary of the business-activities debt service requirements to maturity at June 30, 2016 is as follows:

Years Ending June 30	Business-Type Activities	
	Principal	Interest
2017	\$ 967,638	\$ 182,853
2018	982,607	166,471
2019	878,656	151,242
2020	891,970	137,182
2021	748,165	120,814
2022 - 2026	3,355,595	414,325
2027 - 2032	2,355,047	180,274
2032 - 2036	510,053	25,422
	<u>\$ 10,689,731</u>	<u>\$ 1,378,583</u>

8. Commitments

The Town has signed three ten year lease agreements to lease space in Town buildings to three separate third parties at a cost of \$1 per year each. The lease agreements began on September 1, 2012, August 8, 2014 and February 19, 2015. Each third party has the first option to renew the lease at the end of their ten years. In addition to the annual costs of \$1, the third parties are also required to pay all utilities for the space. Failure to pay by the third parties would result in termination of the lease. The Town recognized rental revenue of \$3, which is included in “Charges for services” income for the year ended June 30, 2016.

9. 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 \$.3017 for each hundred dollars of valuation. The tax rate for ordinary business corporation and railroad and

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

9. Property Taxes (continued)

public utility certifications remained at sixty-two cents for each hundred dollars of valuation in 2016. 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	\$ 495,310,806
Certified by state:	
Ordinary business corporation	18,082,970
Railroad and public utilities	<u>1,514,180</u>
Total base	<u>\$ 514,907,956</u>

10. 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 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. Beginning in 2013 and continuing through fiscal year 2015, The Commissioners of Thurmont, Maryland, began to move the money held in this Plan to the State Retirement and Pension System of Maryland. The Town made a final payment to move these funds in fiscal year 2015.

The investments (MetLife contract GR-911192) were reported at market value, where market value is defined as the contract value of the fixed income fund. As of June 30, 2016, there are no further investments within MetLife.

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 Maryland State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland, 21202 or on the internet at www.sra.state.md.us.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

10. Employee Retirement System and Pension Plan (Unaudited) (continued)

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 up to 7% of their covered salary each fiscal year. The Town is required to contribute at an actuarially determined rate for the Plan.

Annual Pension Cost

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense information about the fiduciary net position of the Employees' Retirement System and the Employees' Pension System administered by the State Retirement and Pension System of Maryland (the System) and additions to /deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

For 2015, the Town's annual pension cost of \$630,646 for ECPS was equal to the Town's required and actual contributions of \$400,457 and the additional funds of \$230,189 which were sent to the ECPS from the Town's original single-employer non-contributory defined benefit pension plan, which the Town discontinued contributing to in September 2005. The required contribution of \$400,457 was determined as part of the June 30, 2015 actuarial valuation using the individual entry age normal method.

The key actuarial assumptions used to perform the June 30, 2015 pension liability calculation are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, closed
Inflation	2.95% general, 3.45% wage
Salary Increases	3.45 % to 10.70%, including inflation
Investment rate of Return	7.55%

Mortality rates were based on the RP-2014 Combined Healthy Mortality Tables.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

10. Employee Retirement System and Pension Plan (Unaudited) (continued)

Annual Pension Cost (continued)

As of June 30, 2016, the Town reported a liability of \$3,948,410 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participants members, actuarially determined. As of June 30, 2015, the Town's proportion was 0.01899%.

For the year ended June 30, 2016, the Town recognized pension expense of \$1,256,651.

As of June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Town contributions subsequent to the measurement date	\$ 384,350	\$ -
Changes of assumptions	233,056	-
Net difference between projected and actual earning on pension plan investments	347,773	267,913
Difference between actual and expected experience	-	80,860
Total	<u>\$ 965,179</u>	<u>\$ 348,773</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources that are related to pensions will be recognized in pension expense as follows:

Year End June 30:	
2016	\$ 58,014
2017	\$ 58,014
2018	\$ 58,014
2019	\$ 58,014

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

10. Employee Retirement System and Pension Plan (Unaudited) (continued)

by adding expected inflation. Best estimate of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(s).

Annual Pension Cost (continued)

For each major asset class that is included in the System's target asset allocation, the best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long - Term Expected Real Rate of Return</u>
Public Equity	35%	6.3%
Fixed Income	10%	0.6%
Credit Opportunity	10%	3.2%
Real Return	14%	1.8%
Absolute Return	10%	4.2%
Private Equity	10%	7.2%
Real Estate	10%	4.4%
Cash	1%	0.0%

The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The schedule below reflects the factors that impact net pension liability and results as of June 30, 2016:

Contributions for year ended June 30, 2015	\$ 400,457
Change in net pension liability factored for contributions	<u>(1,289,287)</u>
Net change in total pension liability	(888,830)
Total pension liability - beginning	<u>(3,059,580)</u>
Total pension liability - ending	<u>\$ (3,948,410)</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

10. Employee Retirement System and Pension Plan (Unaudited) (continued)

Annual Pension Cost (continued)

The following present the Town's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.55%) or 1% higher (8.55%) than the current rate:

	1% Decrease 6.55%	Current Rate 7.55%	1% Increase 8.55%
Town's proportionate share of the Net Pension Liability	\$ 5,580,459	\$ 3,948,410	\$ 2,595,099

The information presented in the required supplementary schedules immediately following the notes to the financial statements presents multi-year 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.

11. 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.

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 \$132,051 at June 30, 2016.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

12. 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
Condensed Statement of Net Position				
Assets:				
Current assets	\$ 1,761,565	\$ 1,694,145	\$ 1,971,811	\$ 5,427,521
Other assets	14,844	-	-	14,844
Net capital assets	<u>21,440,678</u>	<u>5,795,405</u>	<u>5,928,978</u>	<u>33,165,061</u>
Total assets	23,217,087	7,489,550	7,900,789	38,607,426
Deferred outflows of resources	<u>115,821</u>	<u>135,125</u>	<u>466,390</u>	<u>717,336</u>
Total assets and deferred outflows of resources	<u>\$ 23,332,908</u>	<u>\$ 7,624,675</u>	<u>\$ 8,367,179</u>	<u>\$ 39,324,762</u>
Liabilities:				
Current liabilities	\$ 1,173,839	\$ 164,908	\$ 617,368	\$ 1,956,115
Non-current liabilities	<u>6,311,085</u>	<u>1,345,277</u>	<u>4,434,777</u>	<u>12,091,139</u>
Total liabilities	<u>7,484,924</u>	<u>1,510,185</u>	<u>5,052,145</u>	<u>14,047,254</u>
Net position:				
Invested in capital assets	15,171,780	4,816,175	2,487,375	22,475,330
Unrestricted net position	<u>634,351</u>	<u>1,249,486</u>	<u>709,076</u>	<u>2,592,913</u>
Total net position	15,806,131	6,065,661	3,196,451	25,068,243
Deferred inflows of resources	<u>41,853</u>	<u>48,829</u>	<u>118,583</u>	<u>209,265</u>
Total liabilities, net position, and deferred inflows of resources	<u>\$ 23,332,908</u>	<u>\$ 7,624,675</u>	<u>\$ 8,367,179</u>	<u>\$ 39,324,762</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

12. Segment Information for Business-Type Funds (continued)

	Sewer	Water	Electric	Total Business-type Funds
Condensed Statement of Revenues - Expenses and Changes in Net Position				
Operating revenues	\$ 1,648,974	\$ 969,652	\$ 6,229,588	\$ 8,848,214
Depreciation and amortization expense	863,697	181,639	269,304	1,314,640
Operating expenses	<u>891,007</u>	<u>650,126</u>	<u>5,961,476</u>	<u>7,502,609</u>
Operating income (loss)	<u>(105,730)</u>	<u>137,887</u>	<u>(1,192)</u>	<u>30,965</u>
Non-operating revenues (expenses):				
Intergovernmental grant	30,000	-	27,000	57,000
Interest earned	14,350	10,575	392	25,317
Gain on sale of assets	500	150	-	650
Interest expense	(92,570)	(20,964)	(95,625)	(209,159)
Total non-operating revenues (expenses)	<u>(47,720)</u>	<u>(10,239)</u>	<u>(68,233)</u>	<u>(126,192)</u>
Capital contributions	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>40,000</u>
Change in net position	(133,450)	147,648	(69,425)	(55,227)
Beginning net position	<u>15,939,581</u>	<u>5,918,013</u>	<u>3,265,876</u>	<u>25,123,470</u>
Ending net position	<u>\$ 15,806,131</u>	<u>\$ 6,065,661</u>	<u>\$ 3,196,451</u>	<u>\$ 25,068,243</u>

	Sewer	Water	Electric	Total Business-type Funds
Condensed Statement of Cash Flows				
Net cash provided by (used in):				
Operating activities	\$ 696,122	\$ 352,417	\$ 329,609	\$ 1,378,148
Capital and financing activities	(307,744)	(217,099)	(722,027)	(1,246,870)
Investing activities	<u>14,350</u>	<u>10,575</u>	<u>392</u>	<u>25,317</u>
Net increase (decrease)	402,728	145,893	(392,026)	156,595
Beginning cash and cash equivalents	<u>1,315,452</u>	<u>1,473,704</u>	<u>1,674,222</u>	<u>4,463,378</u>
Ending cash and cash equivalents	<u>\$ 1,718,180</u>	<u>\$ 1,619,597</u>	<u>\$ 1,282,196</u>	<u>\$ 4,619,973</u>

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

13. Future Accounting and Financial Reporting Statement Implementation

The Governmental Accounting Standards Board (GASB) has approved the following standards:

GASB 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement is not likely to impact the Town since they do not have any post-employment benefit plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement is not likely to impact the Town since they do not have any other post-employment benefit plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2017.

GASB 77, Tax Abatement Disclosures. This statement is not likely to impact the Town. However, management will review the guidance and ensure there is no effect. The statement is effective for financial statements for periods beginning after December 15, 2015.

GASB 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This statement is not likely to impact the Town since they are a local government. This statement changes requirements for employers who are not state or local governments. This statement is effective for reporting periods beginning after December 15, 2015.

GASB 79 Certain External Investment Pools and Pool Participants. This statement is not likely to impact the Town. However, management will review the guidance and ensure there is no effect. The statement is effective for financial statements for periods beginning after June 15, 2015 except for certain provision which are effective for reporting periods beginning after December 15, 2015.

GASB 80 Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14. This statement is not likely to impact the Town. However, management will review the guidance and ensure there is no effect. This statement is effective for reporting periods beginning after June 15, 2016.

GASB 81 Irrevocable Split-Interest Agreements. This statement is not likely to impact the Town. However, management will review the guidance and ensure there is no effect. This statement is effective for reporting periods beginning after December 15, 2016.

The Commissioners of Thurmont, Maryland

Notes to Financial Statements

For the year ended June 30, 2016

13. Future Accounting and Financial Reporting Statement Implementation (continued)

GASB 82 Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This statement will likely have an impact on the financial reporting of the Town. Management will review the guidance and ensure any effects are implemented. This statement is effective for reporting periods in which the measurement date of the pension liability is on or after July 15, 2017.

14. Subsequent Events

Subsequent events were evaluated through December 30, 2016, the date the financial statements were available to be issued. Subsequent to year end, the Town received notification from the Comptroller of Maryland regarding a third-party audit commissioned by the Comptroller regarding the allocation of local income tax revenue for the tax years 2010 through 2014. The Town was notified that they would receive a special distribution of \$36,029 related to the prior year's misallocation. There were no other subsequent events requiring disclosure.

Required Supplementary Information

The Commissioners of Thurmont, Maryland

Schedule of Funding Progress – Pension Plan (Unaudited)

For the year ended June 30, 2016

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.

	Required Supplementary Information Schedule of Funding Progress (Unaudited) (Expressed in Thousands)		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Actuarial Value of Assets	\$ 46,170,624	\$ 42,996,957	\$ 39,350,969
Actuarial Accrued Liability	<u>66,281,781</u>	<u>62,610,194</u>	<u>60,060,091</u>
Unfunded Actuarial Accrued Liability	<u>\$ 20,111,157</u>	<u>\$ 19,613,237</u>	<u>\$ 20,709,122</u>
Funded Payroll	69.66%	68.67%	65.52%
Covered Payroll	<u>\$ 11,063,961</u>	<u>\$ 10,803,632</u>	<u>\$ 10,478,800</u>
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	182%	182%	198%

The Commissioners of Thurmont, Maryland

Required Supplementary Information

Schedule of Changes in Employee Retirement System (ERS) Net Pension Liability and Related Ratios

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Town's proportion of the ERS net pension liability (asset)	0.018999%	0.017240%
Town's proportionate share of the ERS net pension liability (asset)	\$ 3,948,410	\$ 3,059,580
Town's covered employee payroll	\$ 1,819,197	\$ 1,904,637
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	217.04%	160.64%
Plan fiduciary net position as a percentage of the total pension liability	67.78%	71.87%

Note:

This schedule will eventually cover the 10 most recent fiscal years; however information prior to June 30, 2015 is not available.

The Commissioners of Thurmont, Maryland

Required Supplementary Information Schedule of Pension Contributions

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 384,349	\$ 400,457
Contributions in relation to the contractually required contribution	<u>384,349</u>	<u>630,645</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (230,188)</u>
Town's covered-employee payroll	\$ 1,819,197	\$ 1,904,637
Contributions as a percentage of covered employee payroll	21%	33%

Note:

This schedule will eventually cover the 10 most recent fiscal years; however information prior to June 30, 2015 is not available.

**Notes to the
Required Supplementary Information**

The Commissioners of Thurmont, Maryland

Notes to the Required Supplementary Information

For the year ended June 30, 2016

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, 2015, 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, 2015, the System's funded ratio increased from 68.67% to 69.66%.

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, 2015, the System's ratio of the unfunded actuarial accrued liability to its covered payroll remained stable at 182%.

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 10).

The System's Unfunded Actuarial Accrued Liability (UAAL) is being amortized, at a level of percentage of payroll over a closed period of 25 years. Per the 2012 actuarial valuation, eight years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000 and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems. The UAAL which existed as of June 30, 2000 will be amortized through June 30, 2039. Per the 2013 actuarial, seven years remaining for prior UAAL existing on June 30, 2000 and 25 year from each subsequent valuation date for each year's additional UAAL.

The Commissioners of Thurmont, Maryland

Notes to the Required Supplementary Information

For the year ended June 30, 2016

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, 2015:

- a rate of return on investments of 7.55% compounded annually;
- projected salary increases of 3.45% to 10.70% including inflation
- Inflation 2.95% general, 3.45% wage

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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues:			
Charges for services:			
Domestic and residential	\$ 1,710,000	\$ 359,454	\$ (1,350,546)
Commercial and industrial	1,360,000	1,407,661	47,661
All electric residential	-	1,482,810	1,482,810
Outdoor lighting	12,000	15,090	3,090
Public street lighting	46,000	29,062	(16,938)
Fuel cost adjustment	<u>3,672,000</u>	<u>2,816,722</u>	<u>(855,278)</u>
Total charges for services, net of discounts	<u>6,800,000</u>	<u>6,110,799</u>	<u>(689,201)</u>
Net income from contract work	<u>-</u>	<u>14,896</u>	<u>14,896</u>
Miscellaneous:			
Forfeited discounts	22,000	18,079	(3,921)
Permits and connection charges	-	6,571	6,571
Sales tax allowance and sundry	<u>7,000</u>	<u>79,243</u>	<u>72,243</u>
Total miscellaneous	<u>29,000</u>	<u>103,893</u>	<u>74,893</u>
Total operating revenues	<u>\$ 6,829,000</u>	<u>\$ 6,229,588</u>	<u>\$ (599,412)</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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Expenses:			
Purchased power	\$ 4,500,000	\$ 4,455,965	\$ 44,035
System maintenance:			
Labor and supervision	214,409	187,657	26,752
Materials and supplies	100,000	94,312	5,688
Meter reading	23,000	15,961	7,039
Truck operations	-	37,117	(37,117)
Total system maintenance	<u>337,409</u>	<u>335,047</u>	<u>2,362</u>
Depreciation	<u>-</u>	<u>269,304</u>	<u>(269,304)</u>
General and administrative:			
Employee benefits	107,045	489,951	(382,906)
Office salaries	194,300	183,477	10,823
Professional services	255,000	249,094	5,906
Stationery, postage and office expenses	131,500	104,728	26,772
Insurance	50,000	37,447	12,553
Payroll taxes	29,000	32,630	(3,630)
Telephone	4,000	8,137	(4,137)
Contributions	-	15,000	(15,000)
Rent in lieu of tax	36,000	36,000	-
Commissioners' salaries	<u>14,000</u>	<u>14,000</u>	<u>-</u>
Total general and administrative	<u>820,845</u>	<u>1,170,464</u>	<u>(349,619)</u>
Total operating expenses	<u>\$ 5,658,254</u>	<u>\$ 6,230,780</u>	<u>\$ (572,526)</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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues:			
Charges for services -			
Metered water sales	\$ 950,000	\$ 935,401	\$ (14,599)
Contract work	<u>33,500</u>	<u>34,251</u>	<u>751</u>
Total operating revenues	<u>\$ 983,500</u>	<u>\$ 969,652</u>	<u>\$ (13,848)</u>
Operating Expenses:			
System maintenance:			
Labor and supervision	\$ 178,552	\$ 178,318	\$ 234
Materials and supplies	122,000	145,714	(23,714)
Meter reading	12,000	15,904	(3,904)
Truck operations	<u>-</u>	<u>5,591</u>	<u>(5,591)</u>
Total system maintenance	<u>312,552</u>	<u>345,527</u>	<u>(32,975)</u>
Depreciation and amortization	<u>-</u>	<u>181,639</u>	<u>(181,639)</u>
General and administrative:			
Employee benefits and payroll taxes	154,784	186,591	(31,807)
Office salaries	25,000	38,169	(13,169)
Insurance	22,000	19,042	2,958
Stationery, postage and office expenses	41,500	38,090	3,410
Professional services	15,000	18,707	(3,707)
Commissioners' salaries	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total general and administrative	<u>262,284</u>	<u>304,599</u>	<u>(42,315)</u>
Total operating expenses	<u>\$ 574,836</u>	<u>\$ 831,765</u>	<u>\$ (256,929)</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, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues:			
Charges for services -			
User charges	\$ 1,590,000	\$ 1,648,974	\$ 58,974
Total operating revenues	<u>\$ 1,590,000</u>	<u>\$ 1,648,974</u>	<u>\$ 58,974</u>
Operating Expenses:			
System maintenance:			
Labor and supervision	\$ 263,134	\$ 252,464	\$ (10,670)
Power, supplies and maintenance	305,000	326,919	21,919
Truck operations	-	11,337	11,337
Meter reading	-	-	-
Total system maintenance	<u>568,134</u>	<u>590,720</u>	<u>22,586</u>
Depreciation and amortization	<u>-</u>	<u>863,697</u>	<u>863,697</u>
General and administrative:			
Employee benefits and payroll taxes	150,784	173,994	23,210
Professional services	15,000	28,665	13,665
Insurance	23,477	23,477	-
Stationery, postage and office expenses	41,500	40,260	(1,240)
Office salaries	15,000	23,552	8,552
Commissioners' salaries	4,000	4,000	-
Telephone	5,000	6,339	1,339
Total general and administrative	<u>254,761</u>	<u>300,287</u>	<u>45,526</u>
Total operating expenses	<u>\$ 822,895</u>	<u>\$ 1,754,704</u>	<u>\$ 931,809</u>

Statistical Section

The Commissioners of Thurmont, Maryland

Schedule of General Capital Assets by Function and Activity

June 30, 2016

Land		\$ 1,166,574
Recreational parks - general government:		
Community Park	\$ 570,625	
East End Recreation Park	354,160	
Eyler Road Recreation Area	230,129	
Square Park	206,223	
Memorial Park	75,685	
Ice Plant Park	38,340	
Trolley Car	22,462	
Pleaseant Acres Park	36,902	
Orchard Hills Park	16,553	
Carroll Street Park	14,633	
Woodland Park	32,035	
Webster's Springhouse	<u>7,609</u>	1,605,356
Buildings and improvements - general government:		
Police building	2,223,526	
New town offices	806,424	
Library building	210,554	
New stockroom building and office addition	245,922	
East End warehouse	148,505	
Capitalized police building interest	74,066	
Garage	55,429	
Parking lot	<u>16,451</u>	3,780,877
Streets and drains - highways and streets - general government:		
Streets, alleys and drains	4,452,299	
Moser Road Bridge	215,046	
Storm drains	<u>330,051</u>	4,997,396
Equipment - general government:		
General government:		
Machinery and equipment	936,429	
Parking meters	33,351	
Public works:		
Police vehicles	367,917	
Small tools	492,853	
Public safety:		
Office furniture and fixtures	<u>411,818</u>	2,242,368
Total capital assets		13,792,571
Less accumulated depreciation:		
Recreational parks	(1,143,397)	
Buildings and improvements	(1,366,594)	
Streets and drains	(4,234,054)	
Equipment	<u>(1,706,612)</u>	<u>(8,450,657)</u>
Net investment in capital assets		<u>\$ 5,341,914</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the General Fund of The Commissioners of Thurmont, Maryland as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The Commissioners of Thurmont, Maryland’s basic financial statements and have issued our report thereon dated December 30, 2016.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

We consider the following deficiency in internal control to be a material weakness:

I. Reconciliation and Review of Accounts

At the beginning of our audit, it was again noted that various accounts were not entirely reconciled at year end, and there were journal entries needed to adjust these accounts for errors that occurred throughout the year. These errors affected many accounts including but not limited to cash, accounts receivable, accounts payable, net pension liability related accounts, fixed assets, long-term debt and grants. In order to ensure accurate financial reporting, we suggest that management perform monthly reconciliations and more routine reviews that include all funds and accounts.

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*.

Commissioners of Thurmont, Maryland Corrective Action Plan

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.

Response:

Subsequent to the start of field work the Town has hired an additional part-time bookkeeper to help with the account balance reconciliations. With the addition of this employee, work has been moved around to free up time so that proper account reconciliations can be completed on a monthly basis.

We noted certain matters that we reported to management of The Commissioners of Thurmont, Maryland, in a separate letter dated December 30, 2016.

Purpose of this Report

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

McLean, Koehler, Sparks & Hammond

Frederick, Maryland
December 30, 2016