

TOWN OF THURMONT
FREDERICK COUNTY, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

TOWN OF THURMONT
YEAR ENDED JUNE 30, 2019
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Town of Thurmont
Thurmont, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Thurmont (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Adoption of Governmental Accounting Standard Board Pronouncements

As discussed in Note 1 to the financial statements, in 2019 the Town adopted the provisions of Governmental Accounting Standard Board's Statement No. 83, "*Certain Asset Retirement Obligations*" and Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, General Fund budgetary comparison information, schedule of Town's proportionate share of the net pension liability, and the schedule of the Town's Contributions on pages 4-10, 43 through 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison information on pages 47 through 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information on pages 47 through 49 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information on pages 47 through 49 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
October 29, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2019

The Management's Discussion and Analysis (MD&A) is a component part of the reporting model adopted by the Government Accounting Standards Board (GASB), as referenced in Statement No. 34 issued in June 1999. The intent of the MD&A is to summarize Town of Thurmont's ("Town") financial performance as a whole, using comparative information from the current year analyzed against prior years.

The Town of Thurmont MD&A presents a narrative overview and analysis of the Town's financial performance for the fiscal year ended June 30, 2019. It is recommended that it be read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the Town's financial condition as of June 30, 2019. Certain amounts have been reclassified to conform to current year presentation.

USING THESE FINANCIAL STATEMENTS

The financial statements are organized to provide an understanding of Town of Thurmont as an entire operating entity, while also providing a detailed look at specific financial activities. The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide short-term and long-term information about the Town's overall financial status. Then, the remaining statements are fund financial statements that focus on individual parts of the Town's operations. The governmental funds statement describes how general Town services are financed in the short term, as well as what remains for future spending. The other types of funds shown in the financial statements are enterprise funds. Enterprise fund statements provide financial information regarding funds for services that the Town operates like a business.

FINANCIAL HIGHLIGHTS

The following items detail the Town of Thurmont's financial highlights for the fiscal year ended June 30, 2019:

1. The assets and deferred outflow of resources of the Town and its business-type activities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$35,581,452. Of this amount, \$5,066,843 may be used to meet the Town's ongoing obligations to citizens and creditors.
2. The Town's total net position increased by \$1,187,238.
3. The Town's total general obligation debt decreased by \$1,041,655 due to continued payment of principal on existing debt. All scheduled debt payments were made during the year.
4. The unassigned fund balance for the General Fund as of June 30, 2019 was \$4,039,172, or 103% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts: management's discussion and analysis; the basic financial statements (including notes to the financial statements), required supplementary information (including budgetary comparison schedules for the General Fund) and other supplemental information.

The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements.

The Government-wide Financial Statements

The government-wide financial statements of the Town are divided into two categories: governmental activities and business-type activities. The government-wide statements report information about the Town using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflow of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is paid or received. The two government-wide statements report the Town's net position and how it has changed. An increase or decrease in the Town's net position is an indication of whether it's financial health overall is improving or deteriorating. The three business-type activities of Town of Thurmont are the Water Fund, the Sewer Fund and the Electric Fund.

Fund Financial Statements

The Town's fund financial statements provide more detailed information about the most significant funds, not the Town as a whole. The fund financial statements include:

- The governmental fund financial statements, which explain how services, such as public safety and public works, are financed. The governmental fund includes the General Fund.
- Enterprise funds financial statements offer information about the activities that the Town operates like a business. There are three Town enterprise funds: the Water Fund, the Sewer Fund and the Electric Fund.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's total net position was \$35,581,452 and \$34,394,214 at June 30, 2019 and 2018, respectively.

Table A-1
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

	2019			2018		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Current and other assets	\$ 4,729,052	\$ 5,110,362	\$ 9,839,414	\$ 4,309,773	\$ 4,974,127	\$ 9,283,900
Capital assets	<u>7,417,593</u>	<u>31,588,912</u>	<u>39,006,505</u>	<u>7,244,523</u>	<u>32,263,782</u>	<u>39,508,305</u>
Total assets	<u>12,146,645</u>	<u>36,699,274</u>	<u>48,845,919</u>	<u>11,554,296</u>	<u>37,237,909</u>	<u>48,792,205</u>
Deferred Outflows of Resources	<u>433,623</u>	<u>742,584</u>	<u>1,176,207</u>	<u>427,750</u>	<u>749,134</u>	<u>1,176,884</u>
Current portion of liabilities	426,398	1,479,870	1,906,268	428,093	1,728,838	2,156,931
Long-term portion of liabilities	<u>2,147,036</u>	<u>9,922,554</u>	<u>12,069,590</u>	<u>2,242,115</u>	<u>10,736,466</u>	<u>12,978,581</u>
Total liabilities	<u>2,573,434</u>	<u>11,402,424</u>	<u>13,975,858</u>	<u>2,670,208</u>	<u>12,465,304</u>	<u>15,135,512</u>
Deferred Inflows of Resources	<u>185,926</u>	<u>278,890</u>	<u>464,816</u>	<u>175,745</u>	<u>263,618</u>	<u>439,363</u>
Net position:						
Net investment in capital assets	6,902,251	23,520,399	30,422,650	6,530,664	23,609,408	30,140,072
Restricted for Roadway Improvements	91,959	-	91,959	-	-	-
Unrestricted	<u>2,826,698</u>	<u>2,240,145</u>	<u>5,066,843</u>	<u>2,605,429</u>	<u>1,648,713</u>	<u>4,254,142</u>
Total net position	<u>\$ 9,820,908</u>	<u>\$ 25,760,544</u>	<u>\$ 35,581,452</u>	<u>\$ 9,136,093</u>	<u>\$ 25,258,121</u>	<u>\$ 34,394,214</u>

Over time, net position may serve as a useful indication of a government's financial position. In the case of Town of Thurmont, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$35,581,452. The largest portion of the Town's net position, 85.5%, reflects its net investment in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure); used to acquire those assets that are still in service. The smallest portion, 0.3%, is restricted for roadway improvement projects. The remaining balance of net position of \$5,066,843 or 14.2% represents resources that may be used to meet the government's ongoing obligations to its citizens.

The results of this year's operations as a whole are reported in the statement of activities. All expenses are reported in the first column of the Statement of Activities. Specific charges, grants and subsidies that directly relate to specific expense categories are presented to determine the final amount of the Town's activities that are supported by general revenues. The largest source of general revenues are real estate taxes.

Table A-2 takes the information from the statement of activities and rearranges it slightly, to depict the changes in net position. There was an increase in net position from 2018 to 2019 in the amount of \$1,187,238.

Table A-2
STATEMENTS OF CHANGES IN NET POSITION
Years ended June 30, 2019 and 2018

	2019			2018		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Revenues:						
Program revenues:						
Charges for service	\$ 224,751	\$ 9,366,530	\$ 9,591,281	\$ 249,155	\$ 9,066,872	\$ 9,316,027
Operating grants and contributions	1,376,730	30,000	1,406,730	1,744,271	64,650	1,808,921
Capital grants and contributions	-	35,000	35,000	-	65,000	65,000
General revenues:						
Property taxes	1,762,610	-	1,762,610	1,617,259	-	1,617,259
Other taxes	912,115	-	912,115	841,094	-	841,094
Interest and rents	34,203	22,408	56,611	3,781	10,917	14,698
Gain (loss) on sale of capital assets	14,055	5,000	19,055	(58,196)	(234,281)	(292,477)
Miscellaneous	10,917	-	10,917	19,101	-	19,101
Transfers	-	-	-	63,975	(63,975)	-
Total revenues	4,335,381	9,458,938	13,794,319	4,480,440	8,909,183	13,389,623
Expenses:						
General government	1,323,636	-	1,323,636	1,384,407	-	1,384,407
Public safety	1,095,384	-	1,095,384	1,081,246	-	1,081,246
Highways and streets	716,864	-	716,864	741,852	-	741,852
Public works	119,508	-	119,508	107,415	-	107,415
Recreation and parks	380,919	-	380,919	266,034	-	266,034
Interest	14,255	-	14,255	17,626	-	17,626
Water	-	990,051	990,051	-	1,027,067	1,027,067
Sewer	-	1,506,280	1,506,280	-	1,453,162	1,453,162
Electric	-	6,460,184	6,460,184	-	6,482,340	6,482,340
Total expenses	3,650,566	8,956,515	12,607,081	3,598,580	8,962,569	12,561,149
Increase (decrease) in net position	684,815	502,423	1,187,238	881,860	(53,386)	828,474
Net position at beginning of year	9,136,093	25,258,121	34,394,214	8,254,233	25,311,507	33,565,740
Net position at end of year	<u>\$ 9,820,908</u>	<u>\$ 25,760,544</u>	<u>\$ 35,581,452</u>	<u>\$ 9,136,093</u>	<u>\$ 25,258,121</u>	<u>\$ 34,394,214</u>

Governmental Activities

Total governmental activities revenues of \$4,335,381 in 2019 were derived from property taxes representing 41% of the total, followed by operating grants and contributions at 32% and other taxes at 21%. Intergovernmental revenue decreased \$367,541 as the Town received a Community Development grant of \$83,000 and various parks grants totaling \$284,540 in 2018. Various grants provided funding for the addition of a large pavilion in Community Park, ADA accessible curb cuts and ramps throughout Town and the painting of the railroad bridge. Police grants funded a new license plate reader along with a surveillance pole camera.

Total governmental activities expenses in 2019 were \$3,650,566. The expenses cover a wide range of services, with the largest being the general government at \$1,323,636, public safety at \$1,095,384 and highways and streets at \$716,864.

Enterprise Funds

Business-type activities increased the Town's net position by \$502,423. Key elements of this increase are as follows:

1. Operating revenues of \$9,458,938 that includes \$9,366,530 of charges for services and other revenues of \$92,408.
2. Operating expenses of \$8,956,515.

The business-type activities produced \$9,366,530 in charges for services revenue, an amount that is \$299,658 more than the prior year. Operating expenses decreased by \$6,054 in the business-type activities.

Town Governmental Fund

Total General Fund revenues of \$4,335,381 in 2019 were derived primarily from tax revenues representing 62% of the total and intergovernmental revenue at 32%.

Total General Fund expenditures in 2019 were \$3,938,074. The expenditures cover a wide range of services, with the largest being the general government at \$1,199,153, public safety at \$1,001,416 and highways and streets at \$578,332.

General Fund Budget

A schedule showing the Town's budget compared to amounts actually paid and received is provided as required supplementary information. There were two sets of budget amendments during the fiscal year 2019. The Town adopts its budget on a budgetary basis which differs from GAAP in that the budget excludes capital outlay expenditures related to prior year committed fund balance, capital lease proceeds and expense, and proceeds from the sale of capital assets.

Revenue Variances:

- Tax Collection:
 - o 2019 tax distributions were \$74,300 or 3%, more than budgeted. This is primarily due to an increase in local income tax payments from the Comptroller's office.
 - o Several budget amendments were adopted in the intergovernmental revenue section for FY 2019. The largest budget amendment was for a one time Highway User Revenue grant received in FY19 in the amount of \$183,918. Actual intergovernmental revenue received exceeded the budget by \$111,281.

Expense Variances:

- Public Safety (Police Department):
 - o Overall 2019 expenditures were \$1,011,416 against a budget of \$1,113,224 representing 10% under budget for the year.
- Highways and Streets:
 - o Overall 2019 expenditures were \$578,332 against a budget of \$639,994, representing 10% under budget for the year.
- General Government:
 - o Overall 2019 expenditures were \$1,199,153 against a budget of \$1,308,932, representing 8% under budget for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Town of Thurmont's total assets were \$48,845,919 as of June 30, 2019. Of this amount, \$39,006,505 is accounted for by capital assets. This investment in capital assets includes land, buildings and improvements, water, sewer and electric systems improvements. It also includes machinery and equipment, park facilities, and street improvements. The Town's capital assets for 2019 are as follows and are detailed in Note 5 to the Financial Statements:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Land	\$ 1,234,030	\$ 412,763
Construction in Progress	89,674	1,065,717
Buildings and improvements	3,999,949	138,478
Infrastructure	8,704,606	52,242,915
Equipment	1,531,682	1,585,625
Accumulated Depreciation / Amortization	<u>(8,142,348)</u>	<u>(23,856,586)</u>
	<u>\$ 7,417,593</u>	<u>\$31,588,912</u>

The Town's long term debt activity for 2019 is as follows and is detailed in Note 6 to the Financial Statements:

<u>Type</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
General Obligation Debt	\$ 669,000	\$ -	\$ (163,000)	\$ 506,000
Capital Lease Obligation	44,859		(35,517)	9,342
New Pension Liability	<u>1,626,615</u>	<u>59,011</u>	<u>-</u>	<u>1,685,626</u>
Total Governmental Activities Long-Term Debt	<u>\$ 2,340,474</u>	<u>\$ 59,011</u>	<u>\$ (198,517)</u>	<u>\$ 2,200,968</u>
Business-Type Activities:				
General Obligation Debt	\$ 9,126,807	\$ -	\$ (878,655)	\$ 8,248,152
Net Pension Liability	<u>2,439,921</u>	<u>88,517</u>	<u>-</u>	<u>2,528,438</u>
Total Business-Type Activities Long-Term Debt	<u>\$11,566,728</u>	<u>\$ 88,517</u>	<u>\$ (878,655)</u>	<u>\$10,776,590</u>

At the end of 2019, the Town-wide long-term debt, including capital lease obligations and the net pension liability, amounted to \$12,977,558. A detailed discussion of long-term debt and maturities is included in the footnotes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the Town's budget for the 2019-2020 fiscal year:

1. Population will remain stable during the year.
2. The current tax rate decreased to \$.2992 per \$100 of assessed valuation.

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.

TOWN OF THURMONT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 3,769,134	\$ 4,136,484	\$ 7,905,618
Investments	500,000	-	500,000
Restricted Cash	164,453	120,459	284,912
Receivables			
Taxes	22,848	-	22,848
Accounts, net	1,346	648,348	649,694
Due From Other Governments	205,985	-	205,985
Other Assets	65,286	40,906	106,192
Inventory	-	164,165	164,165
Capital Assets Not Being Depreciated	1,323,704	1,478,480	2,802,184
Capital Assets Being Depreciated, Net of Depreciation	6,093,889	30,110,432	36,204,321
Total Assets	<u>12,146,645</u>	<u>36,699,274</u>	<u>48,845,919</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources from Pension	433,623	650,432	1,084,055
Deferred Charges on Refundings	-	92,152	92,152
Total Deferred Outflows of Resources	<u>433,623</u>	<u>742,584</u>	<u>1,176,207</u>
Liabilities			
Accounts Payable and Accrued Liabilities	175,995	483,400	659,395
Bond Interest Payable	1,526	33,871	35,397
Customers' and developers' deposits payable from restricted assets	30,494	32,972	63,466
Unearned Revenue	1,041	37,657	38,698
Other Liabilities	42,000	-	42,000
Current Portions of Long Term Liabilities:			
Capital Lease Payable	9,342	-	9,342
Bonds Payable	166,000	891,970	1,057,970
Non-Current Portions of Long Term Liabilities:			
Compensated Absences	121,410	37,934	159,344
Bonds Payable	340,000	7,356,182	7,696,182
Net Pension Liability	1,685,626	2,528,438	4,214,064
Total Liabilities	<u>2,573,434</u>	<u>11,402,424</u>	<u>13,975,858</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources from Pension	185,926	278,890	464,816
Total Deferred Inflows of Resources	<u>185,926</u>	<u>278,890</u>	<u>464,816</u>
Net Position			
Net Investment In Capital Assets	6,902,251	23,520,399	30,422,650
Restricted for Roadway Improvements	91,959	-	91,959
Unrestricted	2,826,698	2,240,145	5,066,843
Total Net Position	<u>\$ 9,820,908</u>	<u>\$ 25,760,544</u>	<u>\$ 35,581,452</u>

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

TOWN OF THURMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 1,323,636	\$ 15,967	\$ 944,974	\$ -	\$ (362,695)	\$ -	\$ (362,695)
Public Safety	1,095,384	-	96,201	-	(999,183)	-	(999,183)
Public Works	119,508	120,486	194,458	-	195,436	-	195,436
Highways and Streets	716,864	-	-	-	(716,864)	-	(716,864)
Recreation and Parks	380,919	88,298	141,097	-	(151,524)	-	(151,524)
Interest and Fiscal Charges	14,255	-	-	-	(14,255)	-	(14,255)
Total Governmental Activities	<u>3,650,566</u>	<u>224,751</u>	<u>1,376,730</u>	<u>-</u>	<u>(2,049,085)</u>	<u>-</u>	<u>(2,049,085)</u>
Business-type Activities:							
Sewer	1,506,280	1,649,693	30,000	20,000	-	193,413	193,413
Water	990,051	954,685	-	15,000	-	(20,366)	(20,366)
Electric	6,460,184	6,762,152	-	-	-	301,968	301,968
Total Business-type Activities	<u>8,956,515</u>	<u>9,366,530</u>	<u>30,000</u>	<u>35,000</u>	<u>-</u>	<u>475,015</u>	<u>475,015</u>
Total Primary Government	<u>\$ 12,607,081</u>	<u>\$ 9,591,281</u>	<u>\$ 1,406,730</u>	<u>\$ 35,000</u>	<u>(2,049,085)</u>	<u>475,015</u>	<u>(1,574,070)</u>
General Revenues:							
Taxes:							
Income Taxes					805,391	-	805,391
Property Taxes					1,762,610	-	1,762,610
Gasoline and Motor Taxes					62,463	-	62,463
Other Taxes					44,261	-	44,261
Interest Income					34,203	22,408	56,611
Miscellaneous					10,917	-	10,917
Gain on Disposal of Capital Asset					14,055	5,000	19,055
Total General Revenues and Transfers					<u>2,733,900</u>	<u>27,408</u>	<u>2,761,308</u>
Change in Net Position					684,815	502,423	1,187,238
Net Position - Beginning					<u>9,136,093</u>	<u>25,258,121</u>	<u>34,394,214</u>
Net Position - Ending					<u>\$ 9,820,908</u>	<u>\$ 25,760,544</u>	<u>\$ 35,581,452</u>

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

TOWN OF THURMONT
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2019

	<u>General Fund</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 3,769,134
Investments	500,000
Accounts Receivable	1,346
Taxes Receivable	22,848
Due From Other Governments	205,985
Prepaid Expense	65,286
Restricted Cash	164,453
Total Assets	<u>\$ 4,729,052</u>
<u>Liabilities</u>	
Accounts Payable and Accrued Liabilities	\$ 175,995
Customer and Developer Deposits	30,494
Unearned Revenues	1,041
Other Liabilities	42,000
Total Liabilities	<u>249,530</u>
<u>Fund Balances</u>	
Nonspendable - Prepaid Insurance	65,286
Restricted - Roadway Improvements	91,959
Assigned:	
Future Capital Outlay and Emergency Fund	283,105
Unassigned	4,039,172
Total Fund Balances	<u>4,479,522</u>
Total Liabilities and Fund Balances	<u>\$ 4,729,052</u>

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

TOWN OF THURMONT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balances for governmental funds		\$ 4,479,522
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	1,234,030	
Construction in progress	89,674	
Buildings and improvements, net of \$1,657,496 accumulated depreciation	2,342,453	
Infrastructure, net of \$5,674,711 accumulated depreciation	3,029,895	
Equipment, net of \$810,141 accumulated depreciation	<u>721,541</u>	
Total capital assets		7,417,593
Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.		
Balances at June 30, 2019 are:		
Compensated Absences	(121,410)	
Accrued Interest on Bonds	(1,526)	
Capital Lease Payable	(9,342)	
Bonds Payable	(506,000)	
Deferred Outflows of Resources - Pensions	433,623	
Deferred Inflows of Resources - Pensions	(185,926)	
Net Pension Liability	<u>(1,685,626)</u>	
		<u>(2,076,207)</u>
Total net position of governmental activities		<u>\$ 9,820,908</u>

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

TOWN OF THURMONT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL
 FUND
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>
<u>Revenues</u>	
Taxes	\$ 2,674,725
Intergovernmental	1,376,730
Charges for Services	208,784
Fines, Licenses and Permits	15,967
Interest Income	34,203
Miscellaneous Income	10,917
	4,321,326
Total Revenues	4,321,326
<u>Expenditures</u>	
Current:	
General Government	1,199,153
Public Safety	1,001,416
Public Works	119,508
Highways and Streets	578,332
Recreation and Parks	277,819
Debt Service:	
Principal	198,517
Interest	14,747
Capital Outlay	548,582
	3,938,074
Total Expenditures	3,938,074
Excess of Revenues Over (Under) Expenditures	383,252
<u>Other Financing Sources (Uses)</u>	
Proceeds on Sale of Capital Assets	14,055
Total Other Financing Sources	14,055
Net Change in Fund Balances	397,307
Fund Balances - Beginning of year	4,082,215
Fund Balances - End of year	\$ 4,479,522

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

TOWN OF THURMONT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental fund \$ 397,307

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$548,582) exceeded depreciation (\$375,512) in the current period.

173,070

Repayment of note principal and payments for other long-term obligations are expenditures in the governmental funds but reduce the liabilities in the statement of net position.

Repayments:

Bonds Payable

163,000

Capital Leases

35,517

Net adjustment

198,517

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes in compensated absences, accrued interest, deferred assets, bond (premium)/discount, and pension benefit.

Compensated Absences

(21,252)

Accrued Interest on Bonds

492

Pension Benefit

(63,319)

(84,079)

\$ 684,815

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

TOWN OF THURMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Proprietary Funds			
	Sewer	Water	Electric	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,180,964	\$ 2,191,361	\$ 764,159	\$ 4,136,484
Restricted Cash	-	3,462	116,997	120,459
Prepaid Expense	11,063	18,165	11,678	40,906
Net Receivables	32,125	15,860	585,519	633,504
Inventories	-	53,695	110,470	164,165
Total Current Assets	1,224,152	2,282,543	1,588,823	5,095,518
Noncurrent Assets				
Net Receivables	14,844	-	-	14,844
Capital Assets Not Being Depreciated	158,160	158,268	1,162,052	1,478,480
Capital Assets Being Depreciated, Net of Depreciation	20,591,672	4,750,346	4,768,414	30,110,432
Total Noncurrent Assets	20,764,676	4,908,614	5,930,466	31,603,756
Total Assets	21,988,828	7,191,157	7,519,289	36,699,274
Deferred Outflows of Resources				
Deferred Outflows from Pensions	130,086	151,767	368,579	650,432
Deferred Outflows on Refundings	-	-	92,152	92,152
Total Deferred Outflows of Resources	130,086	151,767	460,731	742,584
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	66,053	20,280	397,067	483,400
Customers' and developers' deposits payable from restricted assets	-	3,462	29,510	32,972
Unearned Revenue	-	-	37,657	37,657
Bonds and Notes Payable - Current Portion	433,900	172,878	285,192	891,970
Bond Interest Payable	27,410	1,581	4,880	33,871
Total Current Liabilities	527,363	198,201	754,306	1,479,870
Noncurrent Liabilities:				
Compensated Absences	22,188	10,334	5,412	37,934
Bonds and notes due in more than one year	4,924,711	259,885	2,171,586	7,356,182
Net pension liabilities	505,687	589,968	1,432,783	2,528,438
Total Noncurrent Liabilities	5,452,586	860,187	3,609,781	9,922,554
Total Liabilities	5,979,949	1,058,388	4,364,087	11,402,424
Deferred Inflows of Resources				
Deferred Inflows from Pension	55,777	65,075	158,038	278,890
NET POSITION				
Net Investment in Capital Assets	15,391,221	4,475,851	3,653,327	23,520,399
Unrestricted	691,967	1,743,610	(195,432)	2,240,145
Total Net Position	\$ 16,083,188	\$ 6,219,461	\$ 3,457,895	\$ 25,760,544

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

TOWN OF THURMONT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Proprietary Funds			
	Sewer	Water	Electric	Total
Operating Revenues				
Charges for Services	\$ 1,636,646	\$ 907,492	\$ 6,739,577	\$ 9,283,715
Contract Work	-	38,682	-	38,682
Miscellaneous	13,047	8,511	22,575	44,133
Total Operating Revenues	1,649,693	954,685	6,762,152	9,366,530
Operating Expenses				
Purchased Power	-	-	4,862,860	4,862,860
System Maintenance	467,081	378,188	337,751	1,183,020
Depreciation	550,684	343,320	344,782	1,238,786
General and Administrative	393,508	257,626	839,972	1,491,106
Total Operating Expenses	1,411,273	979,134	6,385,365	8,775,772
Operating Income (Loss)	238,420	(24,449)	376,787	590,758
Nonoperating Revenues (Expenses)				
Intergovernmental grant	30,000	-	-	30,000
Interest Income	1,478	17,093	3,837	22,408
Gain on disposal of capital assets	-	-	5,000	5,000
Interest and Fiscal Charges	(95,007)	(10,917)	(74,819)	(180,743)
Net Nonoperating Revenues (Expenses)	(63,529)	6,176	(65,982)	(123,335)
Income (Loss) before Capital Contributions	174,891	(18,273)	310,805	467,423
Capital Contributions	20,000	15,000	-	35,000
Changes In Net Position	194,891	(3,273)	310,805	502,423
Total Net Position - Beginning of Year	15,888,297	6,222,734	3,147,090	25,258,121
Total Net Position - End of Year	\$ 16,083,188	\$ 6,219,461	\$ 3,457,895	\$ 25,760,544

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

TOWN OF THURMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Proprietary Funds			
	Sewer	Water	Electric	Total
Cash Flows From Operating Activities				
Receipts from Customers	\$ 1,675,291	\$ 954,156	\$ 6,466,479	\$ 9,095,926
Payments to:				
Employees for salaries, payroll taxes and benefits	(462,794)	(371,548)	(728,339)	(1,562,681)
Suppliers for Operations	(368,622)	(258,379)	(5,222,987)	(5,849,988)
Net Cash Provided by Operating Activities	843,875	324,229	515,153	1,683,257
Cash Flows from Capital and Related Financing Activities				
Proceeds from sale of assets	-	-	5,000	5,000
Capital contributions and intergovernmental grants	50,000	15,000	-	65,000
Purchases and construction of capital assets	(81,785)	(32,007)	(450,124)	(563,916)
Principal paid on bonds and notes	(429,245)	(169,735)	(279,675)	(878,655)
Interest and fiscal charges paid on bonds and notes	(96,941)	(11,958)	(59,645)	(168,544)
Net Cash Used in Capital and Related Financing Activities	(557,971)	(198,700)	(784,444)	(1,541,115)
Cash Flows from Investing Activities				
Interest Income	1,478	17,093	3,837	22,408
Net Cash Provided by Investing Activities	1,478	17,093	3,837	22,408
Net Increase (Decrease) in Cash and Cash Equivalents	287,382	142,622	(265,454)	164,550
Cash and Cash Equivalents, Beginning of Year	893,582	2,052,201	1,146,610	4,092,393
Cash and Cash Equivalents, End of Year	<u>\$ 1,180,964</u>	<u>\$ 2,194,823</u>	<u>\$ 881,156</u>	<u>\$ 4,256,943</u>
<u>Presented in Financial Statements as:</u>				
Cash and Cash Equivalents	\$ 1,180,964	\$ 2,191,361	\$ 764,159	\$ 4,136,484
Restricted Cash	-	3,462	116,997	120,459
	<u>\$ 1,180,964</u>	<u>\$ 2,194,823</u>	<u>\$ 881,156</u>	<u>\$ 4,256,943</u>
Noncash financing activities:				
Amortization of deferred refunding loss	\$ -	\$ -	\$ 15,359	\$ 15,359

TOWN OF THURMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

	Proprietary Funds			
	Sewer	Water	Electric	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 238,420	\$ (24,449)	\$ 376,787	\$ 590,758
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation Expense	550,684	343,320	344,782	1,238,786
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows				
Prepaid Expense	895	(10,502)	(3,651)	(13,258)
Receivables - net of allowances	25,598	(529)	(31,085)	(6,016)
Inventories	4,447	(2,938)	46,080	47,589
Deferred Outflows from Pensions	(1,762)	(2,055)	(4,992)	(8,809)
Accounts Payable and Accrued Liabilities	681	858	3,927	5,466
Unearned Revenue	-	-	(261,359)	(261,359)
Customers Deposit Payable	-	-	(3,229)	(3,229)
Compensated Absences	4,155	(3,693)	(10,922)	(10,460)
Net Pension Liability	17,703	20,654	50,160	88,517
Deferred Inflows from Pensions	3,054	3,563	8,655	15,272
Net Cash Provided by Operating Activities	<u>\$ 843,875</u>	<u>\$ 324,229</u>	<u>\$ 515,153</u>	<u>\$ 1,683,257</u>

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

A summary of the Town's significant accounting policies are as follows:

A) Reporting Entity

Consistent with the guidance contained in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, the criteria used by the Town to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Town reviews the applicability of the following criteria.

The Town is financially accountable for:

- Organizations that make up the legal Town entity.
- Legally separate organizations if the Town officials appoint a voting majority of the organization's governing body and the Town is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Town as defined below:

Impose Its Will – If the Town can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden – Exists if the Town (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the Town. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Town.

Based on the foregoing criteria, the Town has no component units that are required to be included in the Town's financial statements.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B) Government-Wide and Fund Financial Statements

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

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

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

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

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

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Property taxes, charges for services, licenses, operating grants, capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the Town receives cash.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The Town reports the following major governmental fund:

- The General Fund is the primary government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town's enterprise funds are proprietary funds. In the fund financial statements, the proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. The proprietary fund types operating statement presents increases (revenues) and decreases (expenses) in total net position.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets in the proprietary funds are capitalized as assets in the fund financial statements, rather than reported as an expenditure.

The Town reports the following major proprietary funds:

- The Sewer Fund is used to account for the operations of the sewer system in a manner whereby the costs of providing services to the general public are recovered primarily through user charges.
- The Water Fund is used to account for the operations of the water system in a manner whereby the costs of providing services to the general public are recovered primarily through user charges.
- The Electric Fund is used to account for the operations of the electric plant in a manner whereby the costs of providing services to the general public are recovered primarily through user charges.

D) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

2. Investments

The Town invests in a non-negotiable certificate of deposit (CD), which is valued at cost because it is considered a non-participating contract for which redemption terms do not consider market values.

3. Inventory

Inventory consists of materials and supplies used by the proprietary funds and are stated at the lower of cost or market. The Town uses the first-in, first-out (FIFO) method to record inventory for each of the funds. As inventory is consumed, the cost is charged to expense.

4. Restricted Assets

Restricted assets represent cash balances from customer's and developers' escrow deposits, unspent bond proceeds, funds restricted for roadway and park improvements.

TOWN OF THURMONT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

5. Capital Assets

Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital purchases with initial, individual costs that equal or exceed \$500 and estimated useful lives of over one year are recorded as capital assets. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlay of capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment and infrastructure assets are depreciated using the straight line method over the following intended useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5 to 50
Equipment	5 to 20
Infrastructure	5 to 60

6. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of the interfund loans). Other outstanding balances between funds are also reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

6. Receivables and Payables (continued)

Account receivables in the proprietary funds are shown net of an allowance for uncollectible accounts. The Town's allowance for uncollectible accounts is based upon historical collection experience and a review of the status of current accounts receivable. As of June 30, 2019, the Town recorded an allowance for uncollectible account in the proprietary funds in the amount of \$343,756.

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 in the government-wide and proprietary fund statement of net position as long-term liabilities.

The government-wide statement of net position includes accrued compensated absences of \$159,344 in the governmental and business-type activities at June 30, 2019.

8 Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Unearned Revenues

Revenues that are received but not earned are recorded as unearned revenue in the Town's financial statements. In the Town's governmental funds, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

TOWN OF THURMONT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

10. Net Position / Fund Balances

The following classifications describe the relative strength of the spending constraints:

- *Nonspendable Fund Balance* – Amounts that are not in a spendable form (such as Inventory) or are required to be maintained in tact.
- *Restricted Fund Balance* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed Fund Balance* – Amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (i.e. Town Commissioners). To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same level action to remove or change the constraint. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commissioners.
- *Assigned Fund Balance* – Amounts the Town intends to be used for a specific purpose, but are neither restricted nor committed. Assignments of fund balance can be created by the Town's Commissioners.
- *Unassigned Fund Balance* – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the Town's policy to use restricted resources first. When expenditures are incurred for purposes of which unrestricted resources are available, and amounts in any of the unrestricted classifications could be used, it is the Town's policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

The government-wide and business-type activities financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

10. Net Position / Fund Balances (continued)

- *Unrestricted Net Position* – This category represents net position of the Town, not restricted for any project or other purpose.

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

11. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

12. Accounting 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 certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

13. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has two items that qualify for reporting in this category: deferred outflows related to pensions and deferred outflows for deferred charges on refunding bonds. Deferred outflows related to pensions are described further in Note 8. The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year). The remaining components of deferred outflows are amortized into pension expense for the pension plan over the remaining service life of participants, beginning the year in which the deferred amount occurs (current year). A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

13. Deferred Outflows / Inflows of Resources (continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one item that qualifies for reporting in this category: deferred inflows related to pensions. Deferred inflows related to pensions are further described in Note 8. The components of deferred outflows are amortized into pension expense for the pension plan over the remaining service life of participants, beginning the year in which the deferred amount occurs (current year).

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (the "Plan") and additions to/deductions from Plan's fiduciary net position have been determined on the same basis as they are reported by Plan. 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.

15. Adoption of Governmental Accounting Standards Board Statements

The Town adopted the provisions of Governmental Accounting Standard Board's Statement No. 83, "*Certain Asset Retirement Obligations*", and Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". The adoption of these statements had no effect on previously reported amounts.

16. Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*". The Town is required to adopt statement No. 84 for its fiscal year 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, "*Leases*". The Town is required to adopt statement No. 87 for its fiscal year 2021 financial statements.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The Town is required to adopt statement No. 89 for its fiscal year 2021 financial statements.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

16. Pending Changes in Accounting Principles (Continued)

In August 2018, the GASB issued Statement No. 90, "*Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*". The Town is required to adopt statement No. 90 for its fiscal year 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, "*Conduit Debt Obligations*". The Town is required to adopt Statement No. 91 for its fiscal year 2022 financial statements.

The Town has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

E) Budgets and Budgetary Accounting

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.

Basis of Budgeting

The Town adopts the budgets on the budgetary basis of accounting which differs from GAAP. The General Fund Budget excludes capital outlay expenditures related to the prior year committed fund balance, capital lease proceeds and expense, and proceeds from the sale of capital assets. The Proprietary Fund Budgets exclude depreciation expense.

Level of Control

The Town maintains budgetary control at the fund level.

Lapsing of Appropriations

Unexpended appropriations lapse at fiscal year-end.

Management Amendment Authority

During the course of the year, departmental needs may change, emergencies may occur or additional revenue may arise. As a result, funds are transferred between line items of a department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and approved by the Board of Commissioners.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 2: DEPOSIT AND INVESTMENT RISK

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 Town of Thurmont.

Deposits

At year-end, the carrying amount of the Town's deposits was \$8,190,530 and the bank balances were \$8,235,190. Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Maryland State Law prescribes that local government units, such as the Town, must deposit its cash in banks that transact business in the State of Maryland. Such banks must also secure any deposits in excess of the Federal Depository Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2019, the Town's bank balances were not exposed to custodial credit risk as all deposits in excess of Federal Depository Insurance were fully collateralized with securities held by its agent or pledging financial institution or trust department in the Town's name.

Investments

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2019, none of the Town's investments were not exposed to custodial credit risk as all balances in excess of Federal Depository Insurance were fully collateralized with securities held by its agent or pledging financial institution or trust department in the Town's name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer period are subject to increased risk of adverse interest rate changes. As of June 30, 2019, the Town had the following investments and maturities:

Investment Type	Value	Investment Maturity (in Years)		
		Less Than 1	1-5	6-10
Certificate of Deposit - Non-negotiable	\$ 500,000	\$ -	\$ 500,000	\$ -

NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS

Assets whose use is limited to a specific purpose has been classified as restricted in the governmental fund balance sheet and the Statements of Net Position. Governmental Activities restricted cash and cash equivalents of \$164,453 consisted of \$91,959 of funds restricted for roadway improvements, \$30,494 of customer and developer escrow deposits, and \$42,000 held for park improvements. Business - Type Activities restricted cash of \$120,459 is comprised of \$87,487 of unspent bond proceeds and \$32,972 of funds held for customer's and developer's escrow deposits.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 4: 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 October of the following year.

The tax rate for locally assessed real property was set by the Commissioners at \$0.304 for each hundred dollars of valuation. The tax rate for ordinary business corporation and railroads and public utility certifications remained at \$0.62 for each hundred dollars of valuation in 2019. The assessment bases of all real and personal property subject to municipal taxation, net of various exemptions, for the current levy year are shown below by class:

Locally assessed – real property	\$ 542,006,641
Certified by the state:	
Ordinary business corporation	18,091,790
Railroad and public utilities	<u>2,056,620</u>
Total base	<u>\$ 562,155,051</u>

NOTE 5: CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated (cost):				
Land	\$ 1,234,030	\$ -	\$ -	\$ 1,234,030
Construction in progress	1,113	89,674	(1,113)	89,674
Total capital assets not being depreciated	<u>1,235,143</u>	<u>89,674</u>	<u>(1,113)</u>	<u>1,323,704</u>
Capital assets being depreciated (cost):				
Buildings and improvements	3,844,410	155,539	-	3,999,949
Infrastructure	8,452,372	252,234	-	8,704,606
Equipment	1,617,514	52,248	(138,080)	1,531,682
Total capital assets being depreciated	<u>13,914,296</u>	<u>460,021</u>	<u>(138,080)</u>	<u>14,236,237</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,584,034)	(73,462)	-	(1,657,496)
Infrastructure	(5,493,717)	(180,994)	-	(5,674,711)
Equipment	(827,165)	(121,056)	138,080	(810,141)
Total accumulated depreciation	<u>(7,904,916)</u>	<u>(375,512)</u>	<u>138,080</u>	<u>(8,142,348)</u>
Total capital assets being depreciated, net	<u>6,009,380</u>	<u>84,509</u>	<u>-</u>	<u>6,093,889</u>
Total capital assets, governmental activities	<u>\$ 7,244,523</u>	<u>\$ 174,183</u>	<u>\$ (1,113)</u>	<u>\$ 7,417,593</u>

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

<u>Governmental Activities:</u>	
General Government	\$ 49,206
Public Safety	84,518
Highways and Streets	138,532
Recreation and Parks	<u>103,256</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 375,512</u>

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 5: CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Business-Type Activities</u>				
Capital assets not being depreciated (cost):				
Land	\$ 412,763	\$ -	\$ -	\$ 412,763
Construction in progress	740,156	349,416	(23,855)	1,065,717
Total capital assets not being depreciated	<u>1,152,919</u>	<u>349,416</u>	<u>(23,855)</u>	<u>1,478,480</u>
Capital assets being depreciated (cost):				
Buildings and improvements	138,478	-	-	138,478
Infrastructure	52,203,399	53,189	(13,673)	52,242,915
Equipment	1,555,279	185,166	(154,820)	1,585,625
Total capital assets being depreciated	<u>53,897,156</u>	<u>238,355</u>	<u>(168,493)</u>	<u>53,967,018</u>
Less accumulated depreciation for:				
Buildings and improvements	(68,755)	(2,062)	-	(70,817)
Infrastructure	(22,055,487)	(1,148,322)	-	(23,203,809)
Equipment	(662,051)	(88,402)	168,493	(581,960)
Total accumulated depreciation	<u>(22,786,293)</u>	<u>(1,238,786)</u>	<u>168,493</u>	<u>(23,856,586)</u>
Total capital assets being depreciated, net	<u>31,110,863</u>	<u>(1,000,431)</u>	<u>-</u>	<u>30,110,432</u>
Total capital assets, business-type activities	<u>\$ 32,263,782</u>	<u>\$ (651,015)</u>	<u>\$ (23,855)</u>	<u>\$ 31,588,912</u>

Depreciation expense was charged to business-type functions of the Town as follows:

<u>Business-Type Activities:</u>	
Sewer	\$ 550,684
Water	343,320
Electric	<u>344,782</u>
Total Depreciation Expense – Business-Type Activities	<u>\$ 1,238,786</u>

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 6: LONG – TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019	Due Within One Year
<u>Governmental activities</u>					
General obligation debt	\$ 669,000	\$ -	\$ (163,000)	\$ 506,000	\$ 166,000
Capital lease obligation	44,859	-	(35,517)	9,342	9,432
Net pension liability	1,626,615	59,011	-	1,685,626	-
Governmental activities long-term liabilities	<u>\$ 2,340,474</u>	<u>\$ 59,011</u>	<u>\$ (198,517)</u>	<u>\$ 2,200,968</u>	<u>\$ 175,432</u>
<u>Business-type activities</u>					
General obligation debt	\$ 9,126,807	-	(878,655)	8,248,152	891,970
Net pension liability	2,439,921	88,517	-	2,528,438	-
Business-type activities long-term liabilities	<u>\$ 11,566,728</u>	<u>\$ 88,517</u>	<u>\$ (878,655)</u>	<u>\$ 10,776,590</u>	<u>\$ 891,970</u>

The net pension liability is liquidated by the General Fund, Sewer Fund, Water Fund, and the Electric Fund.

Pertinent information regarding long-term debt obligations outstanding is presented below (payable from general fund tax revenues, sewer revenues, water revenues, and electric revenues):

Date of Issue	Amount of Original Issue	Purpose	Balance Outstanding at June 30, 2019
2006	\$ 1,255,737	General Obligation Water Quality Bond, Series of 2006 issued to finance the Sewer Line Rehabilitation project and pay the costs of issuing the bonds. Bond carries an interest rate of 0.4% payable semi-annually on February 1 and August 1. (Final maturity is February 2021)	\$ 177,419
2011	\$ 1,700,000	General Obligation Water Quality Bond, Series of 2011 issued to finance the Waste Water Treatment Plant ENR Upgrade project and pay the costs of issuing the bonds. Bond carries an interest rate of 2.50% to 2.75% payable semi-annually on February 1 and August 1. (Final maturity is February 2032)	1,197,718
2012A	\$ 2,908,498	General Obligation Bonds, Series of 2012A issued to finance the construction, replacement, and rehabilitation of the Town's electrical system, currently refund General Obligation Bond Series of 1998B, currently refund General Obligation Bonds Series of 1983, and pay the costs of issuing the bonds. Bond carries an interest rate of 2.396% payable semi-annually on June 1 and December 1. (Final maturity is December 2031)	1,465,431
2013	\$ 2,607,685	General Obligation Water Quality Bond, Series of 2013 issued to finance Waste System Improvements and pay the costs of issuing the bonds. Bond carries an interest rate of 1.10% payable semi-annually on February 1 and August 1. (Final maturity is February 2033)	2,061,868

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 6: LONG – TERM LIABILITIES (CONTINUED)

<u>Date of Issue</u>	<u>Amount of Original Issue</u>	<u>Purpose</u>	<u>Balance Outstanding at June 30, 2019</u>
2014A	\$ 2,001,000	General Obligation Bonds, Series of 2014A issued to currently refund General Obligation Infrastructure Bonds Series of 2006A and pay the costs of issuing the bonds. Bond carries an interest rate of 2.10% payable semi-annually on June 1 and December 1. (Final maturity is June 2026)	1,430,000
2014B	\$ 1,168,000	General Obligation Bonds, Series of 2014B issued to currently refund General Obligation Note Series of 2007 and pay the costs of issuing the bonds. Bond carries an interest rate of 1.81% payable semi-annually on May 1 and November 1. (Final maturity is May 2022)	506,000
2014C	\$ 805,000	General Obligation Bonds, Series of 2014C issued to currently refund Drinking Water Bonds Series of 1999 and pay the costs of issuing the bonds. Bond carries an interest rate of 1.65% payable semi-annually on February 1 and August 1. (Final maturity is February 2020)	147,000
2015	\$ 2,090,444	General Obligation Water Quality Bond, Series of 2015 issued to finance the Waste Systems Improvements Phase III project and pay the costs of issuing the bonds. Bond carries an interest rate of 0.70% payable semi-annually on February 1 and August 1. (Final maturity is February 2035)	1,768,716
			\$ 8,754,152

An analysis of debt service requirements to maturity on the Governmental Activities obligations is as follows:

	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2020	\$ 166,000	\$ 9,158	\$ 175,158
2021	168,000	6,154	174,154
2022	172,000	3,114	175,114
	\$ 506,000	\$ 18,426	\$ 524,426

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 6: LONG – TERM LIABILITIES (CONTINUED)

An analysis of debt service requirements to maturity on the Business-Type Activities obligations is as follows:

	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2020	\$ 891,970	\$ 131,688	\$ 1,023,658
2021	748,165	117,389	865,554
2022	672,998	105,167	778,165
2023	679,212	93,447	772,659
2024	668,064	81,702	749,766
2025-2029	2,733,492	247,493	2,980,985
2030-2034	1,799,159	56,697	1,855,856
2035-2036	55,092	386	55,478
	<u>\$ 8,248,152</u>	<u>\$ 833,969</u>	<u>\$ 9,082,121</u>

NOTE 7: CAPITAL LEASE

Governmental Activities

In 2016, the Town entered into a capital lease to finance the purchase of police vehicles at an incremental borrowing rate of 5.95%. The term of the lease is three years with payments beginning in October 2016 and going through October 2018.

In 2017, the Town entered into a capital lease to finance the purchase of a police vehicle at an incremental borrowing rate of 6.00%. The term of the lease is three years with payments beginning in October 2017 and going through October 2019.

The Town recorded \$14,889 of depreciation expense during 2019 for these leasehold assets. The assets (recorded as Equipment) acquired through the capital leases are as follows:

Assets:	
Leasehold Assets	\$ 108,260
Less: Accumulated Depreciation	<u>(36,408)</u>
Total	<u>\$ 71,852</u>

Future minimum lease payments under the agreements together with present value of the net minimum lease payments are as follows:

Year Ending December 31	<u>Governmental Activities</u>
2020	\$ <u>9,903</u>
Total Minimum Lease Payments	9,903
Less: Amount Representing Interest	<u>(561)</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 9,342</u>

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8: PENSION PLAN

General Plan InformationPlan Description

The Town participates in the State Retirement and Pension System of Maryland (the "Plan"), a cost-sharing multi-employer defined benefit pension plan, which provides retirement allowances and other benefits to Plan members and beneficiaries. The Plan is administered by the State Retirement Agency. Responsibility for the Plan's administration and operation is vested in a 15 member Board of Trustees.

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 the Plan. 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.srs.state.md.us.

Benefits Provided

The Plan provides retirement, death, and disability benefits under the Alternate Contributory Pension Selection (ACPS) or Reformed Contributory Pension Benefit (RCPB), depending on enrollment date.

The ACPS Plan's normal retirement allows for 30 years of eligibility service or one of the following: age 62 with 5 years of eligibility service; age 63 with 4 years of eligibility service; age 64 with 3 years of eligibility service; or age 65 or older with 2 years of eligibility service. The ACPS Plan's normal retirement benefit is the greater of the following: (i) 1.2% of average final compensation for the highest three consecutive years as an employee for each year of creditable service on or before June 30, 1998; (ii) 0.8% of average final compensation up to the Social Security Integration Level (SSIL) for the three highest consecutive years as a member plus 1.5% of average final compensation over the SSIL for each year of creditable service on or before June 30, 1998; (iii) 1.8% of average final compensation for the three highest consecutive years as an employee for each year of creditable service after June 30, 1998. The SSIL is the average of all Social Security Wage Bases over the thirty-five calendar years prior to retirement. The RCPB Plan's normal retirement allows for a combined age and eligibility service of at least 90 years or age 65 after 10 years of eligibility service. The RCPB Plan's normal retirement benefit is 1.5% of average final compensation for the five highest consecutive years as an employee for each year of creditable service on or after July 1, 2011.

Contributions

The contribution requirements of the Plan members and the Town are established and may be amended by the System's Board of Trustees. Plan members are required to contribute 7% of earnable compensation. The Town is required to contribute at an actuarially determined rate for the Plan. The Town's contractually required contribution rate for the year ended June 30, 2019 was 20.3%. Contributions from the Town to the Plan were \$401,712 for the year ended June 30, 2019.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8: PENSION PLAN (CONTINUED)

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

As of June 30, 2019, the Town reported a liability of \$4,214,064 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participant members, actuarially determined. At June 30, 2018, the Town's proportionate share was 0.0200846%, which was an increase of 0.0012787% from its proportion measured as of June 30, 2017.

For the fiscal year ended June 30, 2019, the Town recognized pension expense of \$455,028. At June 30, 2019, 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>
Difference Between Expected and Actual Experience	\$ -	\$ 341,033
Contribution Subsequent to Measurement Date	401,712	-
Change of Assumptions	122,905	-
Changes in Proportion	405,116	123,783
Difference Between Projected and Actual Investment Earnings	154,322	-
Total	<u>\$ 1,084,055</u>	<u>\$ 464,816</u>
<u>Split of Deferred Outflow/Inflow of Resources</u>		
Governmental Activities	\$ 433,623	\$ 185,926
Business-Type Activities	650,432	278,890
	<u>\$ 1,084,055</u>	<u>\$ 464,816</u>

The \$401,712 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
2020	\$ 84,684	\$ 127,027	\$ 211,711
2021	43,449	65,174	108,623
2022	(34,222)	(51,332)	(85,554)
2023	(15,228)	(22,842)	(38,070)
2024	8,327	12,490	20,817
Total	<u>\$ 87,010</u>	<u>\$ 130,517</u>	<u>\$ 217,527</u>

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8: PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)Actuarial methods and assumptions

The following methods and assumptions were used in the actuarial valuation for the June 30, 2018 measurement date:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.60% general, 3.10% wage
Salary Increases	3.10% including inflation
Investment Rate of Return	7.45%

Retirement age was based on an experience-based table of rates that are specific to the type of eligibility condition and was last updated for the 2015 valuation pursuant to an experience study for the period 2010-2014. Mortality rates were based on RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRP's experience. The discount rate changed from 7.50% to 7.45%, inflation from 2.65% to 2.60%, and salary increases from 3.15% to 3.10% for the June 30, 2018 measurement date.

The long-term expected real rate of return for pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan's current and target asset allocation as of June 30, 2018 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	37.00%	5.80%
Private Equity	13.00%	6.70%
Rate Sensitive	19.00%	1.10%
Credit Opportunity	9.00%	3.60%
Real Assets	14.00%	4.80%
Absolute Return	8.00%	3.20%

Discount Rate

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the member rates. Based on the assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active plan members. Therefore, the long-term expected rate of return on the plans investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8: PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)Sensitivity of the Town's proportionate share of the net pension liability to change in the discount rate

The following schedule presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.45%. It also shows what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.450%)
Town's proportionate share of the Net Pension Liability	\$ 6,069,705	\$ 4,214,064	\$ 2,674,024

Pension Plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued plan financial report.

NOTE 9: DEFERRED COMPENSATION PLAN

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 Towns' 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 Town's financial statements. The investments under the 457 plan at fair market value were \$264,837 at June 30, 2019.

NOTE 10: COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various claims and suits pending against the Town and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the Town's financial position at June 30, 2019.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 10: COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Town has committed \$1,342,121 of business-type funds unrestricted net position for future capital outlay and construction.

NOTE 11: RISK MANAGEMENT

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

The Town has 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.

NOTE 12: SUBSEQUENT EVENTS

The Town has evaluated all subsequent events through report issuance date of October 29, 2019.

REQUIRED
SUPPLEMENTARY
INFORMATION

TOWN OF THURMONT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND (BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,600,425	\$ 2,600,425	\$ 2,674,725	\$ 74,300
Intergovernmental	1,006,218	1,265,449	1,376,730	111,281
Charges for Services	189,060	189,060	208,784	19,724
Fines, Licenses and Permits	13,600	13,600	15,967	2,367
Interest and Rents	1,000	33,000	34,203	1,203
Miscellaneous Income	12,020	12,020	10,917	(1,103)
	<hr/>			
Total Revenues	3,822,323	4,113,554	4,321,326	207,772
	<hr/>			
Expenditures				
Current:				
General Government	1,301,932	1,308,932	1,199,153	109,779
Public Safety	1,113,224	1,113,224	1,001,416	111,808
Public Works	98,820	109,320	119,508	(10,188)
Highways and Streets	639,994	639,994	578,332	61,662
Recreation and Parks	274,403	278,803	277,819	984
Debt Service:				
Principal	198,518	198,518	198,517	1
Interest	14,788	14,788	14,747	41
Capital Outlay	89,612	171,792	490,442	(318,650)
	<hr/>			
Total Expenditures (Budgetary Basis)	3,731,291	3,835,371	3,879,934	(44,563)
	<hr/>			
Differences - Budget to GAAP				
Capital Outlay - Expenditures of Prior Year			58,140	
Assigned Fund Balance			<hr/>	
Total Expenditures (GAAP Basis)			3,938,074	
	<hr/>			
Excess of Revenues Over Expenditures (GAAP Basis)			383,252	
	<hr/>			
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets			14,055	
	<hr/>			
Total Other Financing Sources (Uses)			14,055	
	<hr/>			
Net Change in Fund Balance (GAAP Basis)			<u>\$ 397,307</u>	

TOWN OF THURMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	0.0200846%	0.0188059%	0.0197296%	0.018999%	0.017240%
Town's proportionate share of the net pension liability	\$ 4,214,064	\$ 4,066,536	\$ 4,655,005	\$ 3,948,410	\$ 3,059,580
Town's covered payroll	\$ 1,980,691	\$ 2,246,168	\$ 2,143,716	\$ 1,819,197	\$ 1,904,637
Town's proportionate share of the net pension liability as a percentage of its covered payroll	212.76%	181.04%	217.15%	217.04%	160.64%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	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.

TOWN OF THURMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOWN'S CONTRIBUTIONS

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 401,712	\$ 400,502	\$ 382,764	\$ 384,349	\$ 400,457
Contributions in relation to the contractually determined contribution	401,712	400,502	382,764	384,349	630,645
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (230,188)</u>
Town's covered payroll	1,980,691	2,246,168	2,143,716	1,819,197	1,904,637
Contributions as a percentage of covered payroll	20.28%	17.83%	17.86%	21.13%	33.11%

Note:

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

Changes of assumptions

The discount rate decreased from 7.50% to 7.45% from 2017 to 2018.

Inflation decreased from 2.65% to 2.60% from 2017 to 2018.

Salary increases changed from 3.15% to 3.10% from 2017 to 2018.

OTHER
SUPPLEMENTAL
INFORMATION

TOWN OF THURMONT
 SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
 SEWER FUND (BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Charges for Services - User Charges	\$ 1,580,826	\$ 1,580,826	\$ 1,649,693	\$ 68,867
Total Revenues	<u>1,580,826</u>	<u>1,580,826</u>	<u>1,649,693</u>	<u>68,867</u>
Operating Expenses				
System Maintenance	427,325	427,325	467,081	(39,756)
General and Administrative	<u>400,678</u>	<u>415,138</u>	<u>393,508</u>	<u>21,630</u>
Total Operating Expenses (Budgetary Basis)	<u>828,003</u>	<u>842,463</u>	<u>860,589</u>	<u>(18,126)</u>
Differences - Budget to GAAP				
Depreciation			<u>550,684</u>	
Total Operating Expenses (GAAP Basis)			<u>1,411,273</u>	
Operating Income/(Loss) (GAAP Basis)			<u>\$ 238,420</u>	

TOWN OF THURMONT
 SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
 WATER FUND (BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Charges for Services - User Charges	\$ 924,560	\$ 924,560	\$ 954,685	\$ 30,125
Total Revenues	<u>924,560</u>	<u>924,560</u>	<u>954,685</u>	<u>30,125</u>
Operating Expenses				
System Maintenance	319,380	319,380	378,188	(58,808)
General and Administrative	<u>257,258</u>	<u>257,258</u>	<u>257,626</u>	<u>(368)</u>
Total Operating Expenses (Budgetary Basis)	<u>576,638</u>	<u>576,638</u>	<u>635,814</u>	<u>(59,176)</u>
Differences - Budget to GAAP				
Depreciation			<u>343,320</u>	
Total Operating Expenses (GAAP Basis)			<u>979,134</u>	
Operating Income/(Loss) (GAAP Basis)			<u>\$ (24,449)</u>	

TOWN OF THURMONT
 SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
 ELECTRIC FUND (BUDGETARY BASIS)
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Charges for Services - User Charges	\$ 6,424,957	\$ 6,424,957	\$ 6,762,152	\$ 337,195
Total Revenues	<u>6,424,957</u>	<u>6,424,957</u>	<u>6,762,152</u>	<u>337,195</u>
Operating Expenses				
Purchased Power	4,667,466	4,667,466	4,862,860	(195,394)
System Maintenance	328,807	328,807	337,751	(8,944)
General and Administrative	859,492	859,492	839,972	19,520
Total Operating Expenses (Budgetary Basis)	<u>5,855,765</u>	<u>5,855,765</u>	<u>6,040,583</u>	<u>(184,818)</u>
Differences - Budget to GAAP				
Depreciation			<u>344,782</u>	
Total Operating Expenses (GAAP Basis)			<u>6,385,365</u>	
Operating Income/(Loss) (GAAP Basis)			<u>\$ 376,787</u>	



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CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Town of Thurmont
Thurmont, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Thurmont (the "Town"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 29, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



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Purpose of this Report

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

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
October 29, 2019