

TOWN OF THURMONT
FREDERICK COUNTY, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

(REISSUED)

TOWN OF THURMONT
YEAR ENDED JUNE 30, 2017
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Zelenkofske Axelrod LLC

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, 2017, 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, 2017, 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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Zelenkofske Axelrod LLC

Board of Commissioners
Town of Thurmont
Thurmont, Maryland
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Adoption of Governmental Accounting Standard Board Pronouncements

As discussed in Note 1 to the financial statements, in 2017 the Town adopted the provisions of Governmental Accounting Standard Board's Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pensions*", GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*", and GASB Statement No. 82, "*Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No. 73*". 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, 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.

Zelenkofske Axelrod LLC

Board of Commissioners
Town of Thurmont
Thurmont, Maryland
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Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2017 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 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
November 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

June 30, 2017

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 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, 2017. 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, 2017. 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, 2017:

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 \$33,565,740. Of this amount, \$4,793,063 may be used to meet the Town's ongoing obligations to citizens and creditors.
2. The Town's total net position increased by \$615,507.
3. The Town's total debt decreased by \$737,316 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, 2017 was \$3,605,101, or 74% 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 its 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 Wastewater Fund and the Electric Fund.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's total net position was \$33,565,740 and \$32,950,233 at June 30, 2017 and 2016, respectively.

Table A-1
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|----------------------------------|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
| | Governmental activities | Business-type activities | Total | Governmental activities | Business-type activities | Total |
| Current and other assets | \$ 4,258,041 | \$ 4,801,291 | \$ 9,059,332 | \$ 5,266,108 | \$ 5,357,037 | \$ 10,623,145 |
| Capital assets | <u>6,494,705</u> | <u>33,145,425</u> | <u>39,640,130</u> | <u>5,341,914</u> | <u>33,165,061</u> | <u>38,506,975</u> |
| Total assets | <u>10,752,746</u> | <u>37,946,716</u> | <u>48,699,462</u> | <u>10,608,022</u> | <u>38,522,098</u> | <u>49,130,120</u> |
| Deferred Outflows of Resources | <u>591,797</u> | <u>1,010,563</u> | <u>1,602,360</u> | <u>386,072</u> | <u>717,336</u> | <u>1,103,408</u> |
| Current portion of liabilities | 411,541 | 1,616,306 | 2,027,847 | 381,607 | 903,149 | 1,284,756 |
| Long-term portion of liabilities | <u>2,632,666</u> | <u>11,960,310</u> | <u>14,592,976</u> | <u>2,590,989</u> | <u>13,058,777</u> | <u>15,649,766</u> |
| Total liabilities | <u>3,044,207</u> | <u>13,576,616</u> | <u>16,620,823</u> | <u>2,972,596</u> | <u>13,961,926</u> | <u>16,934,522</u> |
| Deferred Inflows of Resources | <u>46,103</u> | <u>69,156</u> | <u>115,259</u> | <u>139,508</u> | <u>209,265</u> | <u>348,773</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 5,613,797 | 23,158,880 | 28,772,677 | 4,330,289 | 22,475,330 | 26,805,619 |
| Unrestricted | <u>2,640,436</u> | <u>2,152,627</u> | <u>4,793,063</u> | <u>3,551,701</u> | <u>2,592,913</u> | <u>6,144,614</u> |
| Total net position | <u>\$ 8,254,233</u> | <u>\$ 25,311,507</u> | <u>\$ 33,565,740</u> | <u>\$ 7,881,990</u> | <u>\$ 25,068,243</u> | <u>\$ 32,950,233</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 \$33,565,740. The largest portion of the Town's net position, 86%, 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 remaining balance of net position of \$4,793,063 or 14% 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 2016 to 2017 in the amount of \$615,507.

Table A-2
STATEMENTS OF CHANGES IN NET POSITION
Years ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|---------------------------------------|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
| | Governmental activities | Business-type activities | Total | Governmental activities | Business-type activities | Total |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for service | \$ 165,701 | \$ 8,816,259 | \$ 8,981,960 | \$ 167,535 | \$ 8,695,174 | \$ 8,862,709 |
| Operating grants and contributions | 1,116,088 | 30,000 | 1,146,088 | 1,215,915 | 57,000 | 1,272,915 |
| Capital grants and contributions | - | 31,896 | 31,896 | - | 40,000 | 40,000 |
| General revenues: | | | | | | |
| Property taxes | 1,606,481 | - | 1,606,481 | 1,586,806 | - | 1,586,806 |
| Other taxes | 975,273 | - | 975,273 | 969,928 | - | 969,928 |
| Interest and rents | 2,561 | 4,723 | 7,284 | 11,544 | 25,317 | 36,861 |
| Gain (loss) on sale of capital assets | 7,845 | 3,431 | 11,276 | - | 650 | 650 |
| Other general revenues | - | - | - | - | 103,893 | 103,893 |
| Miscellaneous | 5,350 | - | 5,350 | - | 49,147 | 49,147 |
| Transfers | - | - | - | - | - | - |
| Total revenues | <u>3,879,299</u> | <u>8,886,309</u> | <u>12,765,608</u> | <u>3,951,728</u> | <u>8,971,181</u> | <u>12,922,909</u> |
| Expenses: | | | | | | |
| General government | 1,283,081 | - | 1,283,081 | 1,422,821 | - | 1,422,821 |
| Public safety | 1,243,026 | - | 1,243,026 | 1,126,958 | - | 1,126,958 |
| Highways and streets | 588,936 | - | 588,936 | 433,836 | - | 433,836 |
| Public works | 160,555 | - | 160,555 | 317,391 | - | 317,391 |
| Recreation and parks | 212,547 | - | 212,547 | 244,797 | - | 244,797 |
| Interest | 18,911 | - | 18,911 | 23,722 | - | 23,722 |
| Water | - | 748,330 | 748,330 | - | 852,729 | 852,729 |
| Sewer | - | 1,769,875 | 1,769,875 | - | 1,847,274 | 1,847,274 |
| Electric | - | 6,124,840 | 6,124,840 | - | 6,326,405 | 6,326,405 |
| Total expenses | <u>3,507,056</u> | <u>8,643,045</u> | <u>12,150,101</u> | <u>3,569,525</u> | <u>9,026,408</u> | <u>12,595,933</u> |
| Increase (decrease) in net position | 372,243 | 243,264 | 615,507 | 382,203 | (55,227) | 326,976 |
| Net position at beginning of year | <u>7,881,990</u> | <u>25,068,243</u> | <u>32,950,233</u> | <u>7,499,787</u> | <u>25,123,470</u> | <u>32,623,257</u> |
| Net position at end of year | <u>\$ 8,254,233</u> | <u>\$ 25,311,507</u> | <u>\$ 33,565,740</u> | <u>\$ 7,881,990</u> | <u>\$ 25,068,243</u> | <u>\$ 32,950,233</u> |

Governmental Activities

Total governmental activities revenues of \$3,879,299 in 2017 were derived primarily from tax revenues representing 41% of the total, followed by operating grants and contributions at 29% and other taxes at 25%.

Total governmental activities expenses in 2017 were \$3,507,056. The expenses cover a wide range of services, with the largest being the general government at \$1,283,081, public safety at \$1,243,026 and highways and streets at \$588,936

Enterprise Funds

Business-type activities increased the Town's net position by \$243,264. Key elements of this increase are as follows:

1. New grant funding of \$61,896 received for the capital and operating.
2. Charges for services of \$8,816,259 and other revenues of \$70,050.
3. Business-related expenses of \$8,643,045.

The business-type activities produced \$8,886,309 in total revenues, an amount that is \$84,872 less than fiscal year 2016 revenue. Operating expenses decreased by \$383,363 in the business-type activities primarily due to decreased costs in the water, sewer, and electric funds.

Town Governmental Fund

Total General Fund revenues of \$3,871,454 in 2017 were derived primarily from tax revenues representing 67% of the total and intergovernmental revenue at 29%.

Total General Fund expenditures in 2017 were \$4,848,479. The expenditures cover a wide range of services, with the largest being the general government at \$1,196,188, public safety at \$1,061,551 and highways and streets at \$463,730.

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 amendment during the fiscal year 2017.

Revenue Variances:

- Tax Collection:
 - o 2017 tax distributions were \$259,669 or 11%, more than budgeted. This is primarily due to an increase in local income tax payments from the Comptroller's office.
 - o A budget amendment was adopted in the intergovernmental section for \$156,432. This reflected the one time Highway User Revenue grant received in FY17.

Expense Variances:

- Public Safety (Police Department):
 - o Overall 2017 expenditures were \$1,061,551 against a budget of \$1,097,141 representing 3.2% under budget for the year.
- Highways and Streets:
 - o Overall 2017 expenditures were \$463,730 against a budget of \$466,169, representing .5% under budget for the year.
- General Government:
 - o Overall 2017 expenditures were \$1,196,188 against a budget of \$1,338,188, representing 10.6% under budget for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Town of Thurmont's total assets stood at \$48,699,462 as of June 30, 2017. Of this amount, \$39,640,130 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 2017 are as follows and are detailed in Note 5 to the Financial Statements:

| | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| Land | \$ 1,166,574 | \$ 412,763 |
| Intangibles (Non Depreciable) | - | 5,000 |
| Construction in Progress | 70,969 | 568,225 |
| Buildings and improvements | 3,859,914 | 4,967,612 |
| Recreational Parks | 1,881,338 | - |
| Streets and drains | 5,912,031 | - |
| Vehicles | 238,530 | 337,768 |
| Machinery and Equipment | 2,280,379 | 50,854,023 |
| Accumulated Depreciation / Amortization | <u>(8,915,030)</u> | <u>(23,999,966)</u> |
| | <u>\$ 6,494,705</u> | <u>\$ 33,145,425</u> |

The Town's long term debt activity for 2017 is as follows and is detailed in Note 6 to the Financial Statements:

| Type | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|-------------------|---------------------|----------------------|
| Governmental Activities: | | | | |
| General Obligation Debt | \$ 986,000 | \$ - | \$ (157,000) | \$ 829,000 |
| Capital Lease Obligation | 25,625 | 80,201 | (53,918) | 51,908 |
| New Pension Liability | <u>1,579,364</u> | <u>282,639</u> | <u>-</u> | <u>1,862,003</u> |
| Total Governmental Activities Long-Term Debt | <u>\$ 2,590,989</u> | <u>\$ 362,840</u> | <u>\$ (210,918)</u> | <u>\$ 2,742,911</u> |
| Business-Type Activities: | | | | |
| General Obligation Debt | \$ 10,689,731 | \$ 387,322 | \$ (967,638) | \$ 10,109,415 |
| Net Pension Liability | <u>2,369,046</u> | <u>423,956</u> | <u>-</u> | <u>2,793,002</u> |
| Total Business-Type Activities Long-Term Debt | <u>\$ 13,058,777</u> | <u>\$ 811,278</u> | <u>\$ (967,638)</u> | <u>\$ 12,902,417</u> |

At the end of 2017, the Town-wide long-term debt, including capital lease obligations and the net pension liability, amounted to \$15,645,328. 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 2017-2018 fiscal year:

1. Population will remain stable during the year.
2. The current tax rate will remain stable at \$.2849 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, 2017

| | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and Cash Equivalents | \$ 4,053,857 | \$ 3,896,846 | \$ 7,950,703 |
| Restricted Cash | 28,531 | 37,121 | 65,652 |
| Receivables | | | |
| Taxes | 18,795 | - | 18,795 |
| Accounts | - | 652,725 | 652,725 |
| Due From Other Governments | 89,881 | 44,819 | 134,700 |
| Other Assets | 66,977 | 15,609 | 82,586 |
| Inventory | - | 154,171 | 154,171 |
| Capital Assets Not Being Depreciated | 1,237,543 | 985,988 | 2,223,531 |
| Capital Assets Being Depreciated, Net of Depreciation | 5,257,162 | 32,159,437 | 37,416,599 |
| Total Assets | <u>10,752,746</u> | <u>37,946,716</u> | <u>48,699,462</u> |
| Deferred Outflows of Resources | | | |
| Deferred Outflows of Resources from Pension | 591,797 | 887,693 | 1,479,490 |
| Deferred Charges on Refundings | - | 122,870 | 122,870 |
| Total Deferred Outflows of Resources | <u>591,797</u> | <u>1,010,563</u> | <u>1,602,360</u> |
| Liabilities | | | |
| Accounts Payable | 195,305 | 555,979 | 751,284 |
| Bond Interest Payable | 2,501 | 40,599 | 43,100 |
| Customers' and developers' deposits payable from restricted assets | 28,531 | 37,121 | 65,652 |
| Current Portions of Long Term Liabilities: | | | |
| Capital Lease Payable | 25,204 | - | 25,204 |
| Bonds Payable | 160,000 | 982,607 | 1,142,607 |
| Non-Current Portions of Long Term Liabilities: | | | |
| Compensated Absences | 74,959 | 40,500 | 115,459 |
| Capital Lease Payable | 26,704 | - | 26,704 |
| Bonds Payable | 669,000 | 9,126,808 | 9,795,808 |
| Net Pension Liability | 1,862,003 | 2,793,002 | 4,655,005 |
| Total Liabilities | <u>3,044,207</u> | <u>13,576,616</u> | <u>16,620,823</u> |
| Deferred Inflows of Resources | | | |
| Deferred Inflows of Resources from Pension | 46,103 | 69,156 | 115,259 |
| Total Deferred Inflows of Resources | <u>46,103</u> | <u>69,156</u> | <u>115,259</u> |
| Net Position | | | |
| Net Investment In Capital Assets | 5,613,797 | 23,158,880 | 28,772,677 |
| Unrestricted | 2,640,436 | 2,152,627 | 4,793,063 |
| Total Net Position | <u>\$ 8,254,233</u> | <u>\$ 25,311,507</u> | <u>\$ 33,565,740</u> |

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

TOWN OF THURMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| 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 | \$ 1,283,081 | \$ 18,149 | \$ 926,424 | \$ - | \$ (338,508) | \$ - | \$ (338,508) |
| Public Safety | 1,243,026 | - | 85,259 | - | (1,157,767) | - | (1,157,767) |
| Public Works | 160,555 | 147,552 | 3,740 | - | (9,263) | - | (9,263) |
| Highways and Streets | 588,936 | - | - | - | (588,936) | - | (588,936) |
| Recreation and Parks | 212,547 | - | 100,665 | - | (111,882) | - | (111,882) |
| Interest on Long-Term Debt | 18,911 | - | - | - | (18,911) | - | (18,911) |
| Total Governmental Activities | <u>3,507,056</u> | <u>165,701</u> | <u>1,116,088</u> | <u>-</u> | <u>(2,225,267)</u> | <u>-</u> | <u>(2,225,267)</u> |
| Business-type Activities: | | | | | | | |
| Sewer | 1,769,875 | 1,604,141 | 30,000 | 16,896 | - | (118,838) | (118,838) |
| Water | 748,330 | 992,892 | - | 15,000 | - | 259,562 | 259,562 |
| Electric | 6,124,840 | 6,219,226 | - | - | - | 94,386 | 94,386 |
| Total Business-type Activities | <u>8,643,045</u> | <u>8,816,259</u> | <u>30,000</u> | <u>31,896</u> | <u>-</u> | <u>235,110</u> | <u>235,110</u> |
| Total Primary Government | <u>\$ 12,150,101</u> | <u>\$ 8,981,960</u> | <u>\$ 1,146,088</u> | <u>\$ 31,896</u> | <u>(2,225,267)</u> | <u>235,110</u> | <u>(1,990,157)</u> |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Income Taxes | | | | | 731,893 | - | 731,893 |
| Property Taxes | | | | | 1,606,481 | - | 1,606,481 |
| Gasoline and Motor Taxes | | | | | 215,930 | - | 215,930 |
| Other Taxes | | | | | 27,450 | - | 27,450 |
| Interest Income | | | | | 2,561 | 4,723 | 7,284 |
| Miscellaneous | | | | | 5,350 | - | 5,350 |
| Gain on Sale of Capital Asset | | | | | 7,845 | 3,431 | 11,276 |
| Total General Revenues | | | | | <u>2,597,510</u> | <u>8,154</u> | <u>2,605,664</u> |
| Change in Net Position | | | | | 372,243 | 243,264 | 615,507 |
| Net Position - Beginning | | | | | <u>7,881,990</u> | <u>25,068,243</u> | <u>32,950,233</u> |
| Net Position - Ending | | | | | <u>\$ 8,254,233</u> | <u>\$ 25,311,507</u> | <u>\$ 33,565,740</u> |

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

TOWN OF THURMONT
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017

| | General Fund |
|--|--------------|
| <u>Assets</u> | |
| Cash and Cash Equivalents | \$ 4,053,857 |
| Taxes Receivable | 18,795 |
| Due From Other Governments | 89,881 |
| Prepaid Expense | 66,977 |
| Restricted Cash | 28,531 |
| Total Assets | \$ 4,258,041 |
| <u>Liabilities</u> | |
| Accounts Payable and Accrued Liabilities | 195,305 |
| Customer and Developer Deposits | 28,531 |
| Total Liabilities | 223,836 |
| <u>Fund Balances</u> | |
| Nonspendable - prepaids | 66,977 |
| Assigned | |
| Future capital outlay and emergency fund | 260,000 |
| Appropriations for subsequent years budget | 102,127 |
| Unassigned | 3,605,101 |
| Total Fund Balances | 4,034,205 |
| Total Liabilities and Fund Balances | \$ 4,258,041 |

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, 2017

Total fund balances for governmental funds \$ 4,034,205

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 | 1,166,574 | |
| Construction in progress | 70,969 | |
| Buildings and improvements, net of \$1,382,550 accumulated depreciation | 2,477,364 | |
| Recreational parks, net of \$1,221,883 accumulated depreciation | 659,455 | |
| Highways and streets, net of \$4,347,687 accumulated depreciation | 1,564,344 | |
| Equipment, net of \$1,941,043 accumulated depreciation | 339,336 | |
| Vehicles, net of \$21,867 accumulated depreciation | <u>216,663</u> | |
| Total capital assets | | 6,494,705 |

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, 2017 are:

| | | |
|---|--------------------|--------------------|
| Compensated Absences | (74,959) | |
| Accrued Interest on Bonds and Loan | (2,501) | |
| Capital Lease Payable | (51,908) | |
| Bonds Payable | (829,000) | |
| Deferred Outflows of Resources - Pensions | 591,797 | |
| Deferred Inflows of Resources - Pensions | (46,103) | |
| Net Pension Liability | <u>(1,862,003)</u> | |
| | | <u>(2,274,677)</u> |

Total net position of governmental activities \$ 8,254,233

TOWN OF THURMONT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL
 FUND
 FOR THE YEAR ENDED JUNE 30, 2017

| | <u>General</u> |
|--|----------------|
| <u>Revenues</u> | |
| Taxes | \$ 2,581,754 |
| Intergovernmental | 1,116,088 |
| Charges for Services | 147,552 |
| Fines, Licenses and Permits | 18,149 |
| Interest Income | 2,561 |
| Miscellaneous Income | 5,350 |
| | <hr/> |
| Total Revenues | 3,871,454 |
| | <hr/> |
| <u>Expenditures</u> | |
| Current: | |
| General Government | 1,196,188 |
| Public Safety | 1,061,551 |
| Public Works | 145,483 |
| Highways and Streets | 463,730 |
| Recreation and Parks | 134,061 |
| Debt Service: | |
| Principal | 210,918 |
| Interest | 19,384 |
| Capital Outlay | 1,617,164 |
| | <hr/> |
| Total Expenditures | 4,848,479 |
| | <hr/> |
| Excess of Revenues Over (Under) Expenditures | (977,025) |
| | <hr/> |
| <u>Other Financing Sources (Uses)</u> | |
| Proceeds from Sale of Capital Assets | 7,845 |
| Capital Lease Proceeds | 80,201 |
| Total Other Financing Sources | 88,046 |
| | <hr/> |
| Net Change in Fund Balances | (888,979) |
| | <hr/> |
| Fund Balances - Beginning of year | 4,923,184 |
| | <hr/> |
| Fund Balances - End of year | \$ 4,034,205 |
| | <hr/> <hr/> |

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 FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental fund \$ (888,979)

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 (\$1,617,164) exceeded depreciation (\$464,373) in the current period. 1,152,791

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.

| | | | |
|----------------|--|---------------|---------|
| Debt issued: | | | |
| Capital Leases | | (80,201) | |
| Repayments: | | | |
| Bonds Payable | | 157,000 | |
| Capital Leases | | <u>53,918</u> | |
| Net adjustment | | | 130,717 |

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 | (39,250) | |
| Accrued Interest on Bonds | 473 | |
| Pension Benefit | <u>16,491</u> | |
| | | <u>(22,286)</u> |
| | | <u><u>\$ 372,243</u></u> |

TOWN OF THURMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

| | Proprietary Funds | | | |
|--|----------------------|---------------------|---------------------|----------------------|
| | Sewer | Water | Electric | Total |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 976,316 | \$ 1,895,402 | \$ 1,025,128 | \$ 3,896,846 |
| Restricted Cash | - | 3,462 | 33,659 | 37,121 |
| Prepaid Expense | 5,223 | 4,519 | 5,867 | 15,609 |
| Net Receivables | 64,653 | 10,036 | 563,192 | 637,881 |
| Due From Other Governments | 44,819 | - | - | 44,819 |
| Inventories | 3,749 | 24,952 | 125,470 | 154,171 |
| Total Current Assets | 1,094,760 | 1,938,371 | 1,753,316 | 4,786,447 |
| Noncurrent Assets | | | | |
| Net Receivables | 14,844 | - | - | 14,844 |
| Capital Assets Not Being Depreciated | 74,059 | 184,300 | 727,629 | 985,988 |
| Capital Assets Being Depreciated, Net of Depreciation | 21,285,999 | 5,524,355 | 5,349,083 | 32,159,437 |
| Total Noncurrent Assets | 21,374,902 | 5,708,655 | 6,076,712 | 33,160,269 |
| Total Assets | 22,469,662 | 7,647,026 | 7,830,028 | 37,946,716 |
| Deferred Outflows of Resources | | | | |
| Deferred Outflows from Pensions | 177,538 | 207,128 | 503,027 | 887,693 |
| Deferred Outflows on Refundings | - | - | 122,870 | 122,870 |
| Total Deferred Outflows of Resources | 177,538 | 207,128 | 625,897 | 1,010,563 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Accrued Liabilities | 110,788 | 47,229 | 397,962 | 555,979 |
| Customers' and developers' deposits payable from restricted assets | - | 3,462 | 33,659 | 37,121 |
| Bonds and Notes Payable - Current Portion | 436,742 | 190,001 | 355,864 | 982,607 |
| Bond Interest Payable | 31,174 | 3,695 | 5,730 | 40,599 |
| Total Current Liabilities | 578,704 | 244,387 | 793,215 | 1,616,306 |
| Noncurrent Liabilities: | | | | |
| Compensated Absences | 19,662 | 11,725 | 9,113 | 40,500 |
| Bonds and notes due in more than one year | 5,787,857 | 602,498 | 2,736,453 | 9,126,808 |
| Net pension liabilities | 558,600 | 651,700 | 1,582,702 | 2,793,002 |
| Total Noncurrent Liabilities | 6,366,119 | 1,265,923 | 4,328,268 | 11,960,310 |
| Total Liabilities | 6,944,823 | 1,510,310 | 5,121,483 | 13,576,616 |
| Deferred Inflows of Resources | | | | |
| Deferred Inflows from Pension | 13,831 | 16,137 | 39,188 | 69,156 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 15,135,459 | 4,916,156 | 3,107,265 | 23,158,880 |
| Unrestricted | 553,087 | 1,411,551 | 187,989 | 2,152,627 |
| Total Net Position | \$ 15,688,546 | \$ 6,327,707 | \$ 3,295,254 | \$ 25,311,507 |

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, 2017

| | Proprietary Funds | | | |
|--|----------------------|---------------------|---------------------|----------------------|
| | Sewer | Water | Electric | Total |
| Operating Revenues | | | | |
| Charges for Services | \$ 1,591,497 | \$ 949,077 | \$ 6,168,700 | \$ 8,709,274 |
| Contract Work | - | 37,259 | 1,762 | 39,021 |
| Miscellaneous | 12,644 | 6,556 | 48,764 | 67,964 |
| Total Operating Revenues | 1,604,141 | 992,892 | 6,219,226 | 8,816,259 |
| Operating Expenses | | | | |
| Purchased Power | - | - | 4,536,907 | 4,536,907 |
| System Maintenance | 541,405 | 335,906 | 358,675 | 1,235,986 |
| Depreciation | 897,766 | 177,910 | 290,833 | 1,366,509 |
| General and Administrative | 228,839 | 216,907 | 848,286 | 1,294,032 |
| Total Operating Expenses | 1,668,010 | 730,723 | 6,034,701 | 8,433,434 |
| Operating Income (Loss) | (63,869) | 262,169 | 184,525 | 382,825 |
| Nonoperating Revenues (Expenses) | | | | |
| Intergovernmental grant | 30,000 | - | - | 30,000 |
| Interest Income | 1,253 | 2,484 | 986 | 4,723 |
| Gain on sale of assets | - | - | 3,431 | 3,431 |
| Interest Expense | (101,865) | (17,607) | (90,139) | (209,611) |
| Net Nonoperating Expenses | (70,612) | (15,123) | (85,722) | (171,457) |
| Capital Contributions | | | | |
| Capital Contributions | 16,896 | 15,000 | - | 31,896 |
| Changes In Net Position | (117,585) | 262,046 | 98,803 | 243,264 |
| Total Net Position - Beginning of Year | 15,806,131 | 6,065,661 | 3,196,451 | 25,068,243 |
| Total Net Position - End of Year | <u>\$ 15,688,546</u> | <u>\$ 6,327,707</u> | <u>\$ 3,295,254</u> | <u>\$ 25,311,507</u> |

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

TOWN OF THURMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

| | Proprietary Funds | | | |
|---|-------------------|---------------------|---------------------|---------------------|
| | Sewer | Water | Electric | Total |
| Cash Flows From Operating Activities | | | | |
| Receipts from Customers | \$ 1,568,472 | \$ 1,018,027 | \$ 6,204,234 | \$ 8,790,733 |
| Receipts (Payments) from Interfund Transactions | (608,403) | 67,043 | 456,032 | (85,328) |
| Payments to: | | | | |
| Employees for salaries, payroll taxes and benefits | (424,159) | (337,387) | (698,712) | (1,460,258) |
| Suppliers for Operations | (361,696) | (189,346) | (5,326,094) | (5,877,136) |
| Net Cash Provided by Operating Activities | 174,214 | 558,337 | 635,460 | 1,368,011 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Proceeds from bonds | 387,322 | - | - | 387,322 |
| Proceeds from sale of asset | - | - | 3,431 | 3,431 |
| Capital contributions and intergovernmental grants | 46,896 | 15,000 | - | 61,896 |
| Purchases and construction of capital assets | (817,146) | (91,160) | (438,567) | (1,346,873) |
| Principal paid on bonds and notes | (431,621) | (186,731) | (349,286) | (967,638) |
| Interest paid on bonds and notes | (102,782) | (18,663) | (75,433) | (196,878) |
| Net Cash Used in Capital and Related Financing Activities | (917,331) | (281,554) | (859,855) | (2,058,740) |
| Cash Flows from Investing Activities | | | | |
| Interest Income | 1,253 | 2,484 | 986 | 4,723 |
| Net Cash Provided by Investing Activities | 1,253 | 2,484 | 986 | 4,723 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (741,864) | 279,267 | (223,409) | (686,006) |
| Cash and Cash Equivalents, Beginning of Year | 1,718,180 | 1,619,597 | 1,282,196 | 4,619,973 |
| Cash and Cash Equivalents, End of Year | <u>\$ 976,316</u> | <u>\$ 1,898,864</u> | <u>\$ 1,058,787</u> | <u>\$ 3,933,967</u> |
| <u>Presented in Financial Statements as:</u> | | | | |
| Cash and Cash Equivalents | \$ 976,316 | \$ 1,895,402 | \$ 1,025,128 | \$ 3,896,846 |
| Restricted Cash | - | 3,462 | 33,659 | 37,121 |
| | <u>\$ 976,316</u> | <u>\$ 1,898,864</u> | <u>\$ 1,058,787</u> | <u>\$ 3,933,967</u> |
| Noncash financing activities: | | | | |
| Amortization of deferred refunding loss | \$ - | \$ - | \$ 15,359 | \$ 15,359 |

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, 2017

| | Proprietary Funds | | | |
|--|-------------------|-------------------|-------------------|---------------------|
| | Sewer | Water | Electric | Total |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | |
| Operating Income (Loss) | \$ (63,869) | \$ 262,169 | \$ 184,525 | \$ 382,825 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | |
| Depreciation Expense | 897,766 | 177,910 | 290,833 | 1,366,509 |
| Change in Assets and Liabilities | | | | |
| Prepaid Expense | 7,323 | 6,622 | 17,589 | 31,534 |
| Receivables - net of allowances | (35,669) | 25,135 | (18,797) | (29,331) |
| Due From Other Governments | (44,819) | - | - | (44,819) |
| Inventories | (1,894) | 3,284 | (3,706) | (2,316) |
| Deferred Outflows from Pensions | (61,717) | (72,003) | (174,866) | (308,586) |
| Accounts Payable and Accrued Liabilities | 9,065 | 10,221 | (289,915) | (270,629) |
| Due To/From Other Funds | (608,403) | 67,043 | 456,032 | (85,328) |
| Customers Deposit Payable | - | - | 3,805 | 3,805 |
| Compensated Absences | 19,662 | 11,725 | 9,113 | 40,500 |
| Net Pension Liability | 84,791 | 98,923 | 240,242 | 423,956 |
| Deferred Inflows from Pensions | (28,022) | (32,692) | (79,395) | (140,109) |
| Net Cash Provided by Operating Activities | <u>\$ 174,214</u> | <u>\$ 558,337</u> | <u>\$ 635,460</u> | <u>\$ 1,368,011</u> |

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

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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, 2017

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, 2017

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. 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.

3. Restricted Assets

Restricted assets represent cash balances from customer's and developers' escrow deposits.

TOWN OF THURMONT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017

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

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

4. 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 fair 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 | 10 to 50 |
| Equipment: | |
| Water, electric, and sewer system | 30 to 50 |
| Machinery, equipment, and vehicles | 5 to 10 |
| Streets and drains | 5 to 50 |
| Recreational parks | 5 to 25 |

5. 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, 2017

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

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

5. 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, 2017, the Town recorded an allowance for uncollectible account in the proprietary funds in the amount of \$343,757.

6. 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 \$115,459 in the governmental and business-type activities at June 30, 2017.

7. 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.

8. 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, 2017

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

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

9. 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, 2017

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

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

9. 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.

10. 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.

11. 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.

12. 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, 2017

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

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

12. 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).

13. Adoption of Governmental Accounting Standards Board Statements

The Town adopted the requirements of GASB Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pensions*", GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*", and GASB Statement No. 82, "*Pension issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The adoption of these statements had no effect on previously reported amounts.

14. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*". The Town is required to adopt statement No. 75 for its fiscal year 2018 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The Town is required to adopt statement No. 81 for its fiscal year 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations*". The Town is required to adopt statement No. 83 for its fiscal year 2019 financial statements.

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 March 2017, the GASB issued Statement No. 85, "*Omnibus 2017*". The Town is required to adopt statement No. 85 for its fiscal year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues*". The Town is required to adopt statement No. 86 for its fiscal year 2018 financial statements.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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

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

14. Pending Changes in Accounting Principles (Continued)

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.

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 controls 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, 2017

NOTE 2: CASH AND CASH EQUIVALENTS

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 \$8,016,355 and the bank balance was \$8,092,255. 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 with 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, 2017, the Town's bank balance was not exposed to any custodial credit risk as all deposits in excess of Federal Depository Insurance were fully collateralized.

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 \$28,531 and Business - Type Activities restricted cash of \$37,121 is comprised of funds held for customer's and developer's escrow deposits.

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 February 28 of the following year.

The tax rate for locally assessed real property was set by the Commissioners at \$0.293 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 2017. 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 | \$ 512,293,187 |
| Certified by the state: | |
| Ordinary business corporation | 17,754,750 |
| Railroad and public utilities | <u>2,052,610</u> |
| Total base | <u>\$ 532,100,547</u> |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 5: CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017 is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---------------------|---------------------|-------------|---------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets not being depreciated (cost): | | | | |
| Land | \$ 1,166,574 | \$ - | \$ - | \$ 1,166,574 |
| Construction in progress | - | 70,969 | - | 70,969 |
| Total capital assets not being depreciated | <u>1,166,574</u> | <u>70,969</u> | <u>-</u> | <u>1,237,543</u> |
| Capital assets being depreciated (cost): | | | | |
| Buildings and improvements | 3,780,877 | 79,037 | - | 3,859,914 |
| Recreational parks | 1,605,356 | 275,982 | - | 1,881,338 |
| Streets and drains | 4,997,396 | 914,635 | - | 5,912,031 |
| Equipment | 2,242,368 | 38,011 | - | 2,280,379 |
| Vehicles | - | 238,530 | - | 238,530 |
| Total capital assets being depreciated | <u>12,625,997</u> | <u>1,546,195</u> | <u>-</u> | <u>14,172,192</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,231,273) | (151,277) | - | (1,382,550) |
| Recreational parks | (1,143,397) | (78,486) | - | (1,221,883) |
| Streets and drains | (4,234,054) | (113,633) | - | (4,347,687) |
| Equipment | (1,841,933) | (99,110) | - | (1,941,043) |
| Vehicles | - | (21,867) | - | (21,867) |
| Total accumulated depreciation | <u>(8,450,657)</u> | <u>(464,373)</u> | <u>-</u> | <u>(8,915,030)</u> |
| Total capital assets being depreciated, net | <u>4,175,340</u> | <u>1,081,822</u> | <u>-</u> | <u>5,257,162</u> |
| Total capital assets, governmental activities | <u>\$ 5,341,914</u> | <u>\$ 1,152,791</u> | <u>\$ -</u> | <u>\$ 6,494,705</u> |

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

| | |
|--|-------------------|
| <u>Governmental activities</u> | |
| General government | \$ 93,706 |
| Public safety | 163,476 |
| Public works | 15,072 |
| Highways and streets | 113,633 |
| Recreation and parks | <u>78,486</u> |
| Total depreciation expense – governmental activities | <u>\$ 464,373</u> |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 5: CAPITAL ASSETS (CONTINUED)

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--|----------------------|---------------------|-----------------------|----------------------|
| <u>Business-Type Activities</u> | | | | |
| Capital assets not being depreciated (cost): | | | | |
| Land | \$ 412,763 | \$ - | \$ - | \$ 412,763 |
| Intangibles | 5,000 | - | - | 5,000 |
| Construction in progress | 1,853,684 | 434,763 | (1,720,222) | 568,225 |
| Total capital assets not being depreciated | <u>2,271,447</u> | <u>434,763</u> | <u>(1,720,222)</u> | <u>985,988</u> |
| Capital assets being depreciated (cost): | | | | |
| Buildings and improvements | 4,967,612 | - | - | 4,967,612 |
| Equipment | 48,559,459 | 2,294,564 | - | 50,854,023 |
| Vehicles | - | 337,768 | - | 337,768 |
| Total capital assets being depreciated | <u>53,527,071</u> | <u>2,632,332</u> | <u>-</u> | <u>56,159,403</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (2,070,703) | (111,049) | - | (2,181,752) |
| Equipment | (20,562,754) | (1,240,992) | - | (21,803,746) |
| Vehicles | - | (14,468) | - | (14,468) |
| Total accumulated depreciation | <u>(22,633,457)</u> | <u>(1,366,509)</u> | <u>-</u> | <u>(23,999,966)</u> |
| Total capital assets being depreciated, net | <u>30,893,614</u> | <u>1,265,823</u> | <u>-</u> | <u>32,159,437</u> |
| Total capital assets, business-type activities | <u>\$ 33,165,061</u> | <u>\$ 1,700,586</u> | <u>\$ (1,720,222)</u> | <u>\$ 33,145,425</u> |

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

| | |
|---|---------------------|
| <u>Business-Type Activities:</u> | |
| Sewer | \$ 897,766 |
| Water | 177,910 |
| Electric | <u>290,833</u> |
| Total depreciation expense – business-type activities | <u>\$ 1,366,509</u> |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 6: LONG – TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

| | Balance at July 1, 2016 | Additions | Reductions | Balance at June 30, 2017 | Due Within One Year |
|---|----------------------------|-------------------|---------------------|-----------------------------|------------------------|
| <u>Governmental activities</u> | | | | | |
| General obligation debt | \$ 986,000 | \$ - | \$ (157,000) | \$ 829,000 | \$ 160,000 |
| Capital lease obligation | 25,625 | 80,201 | (53,918) | 51,908 | 25,204 |
| Net pension liability | 1,579,364 | 282,639 | - | 1,862,003 | - |
| Governmental activities long-term liabilities | <u>\$ 2,590,989</u> | <u>\$ 362,840</u> | <u>\$ (210,918)</u> | <u>\$ 2,742,911</u> | <u>\$ 185,204</u> |
| <u>Business-type activities</u> | | | | | |
| General obligation debt | \$ 10,689,731 | \$ 387,322 | \$ (967,638) | \$ 10,109,415 | \$ 982,607 |
| Net pension liability | 2,369,046 | 423,956 | - | 2,793,002 | - |
| Business-type activities long-term liabilities | <u>\$ 13,058,777</u> | <u>\$ 811,278</u> | <u>\$ (967,638)</u> | <u>\$ 12,902,417</u> | <u>\$ 982,607</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 <u>Issue</u> | Amount of Original <u>Issue</u> | <u>Purpose</u> | Balance Outstanding at <u>June 30, 2017</u> |
|----------------------------|--|--|---|
| 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) | \$ 360,575 |
| 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) | 1,350,191 |
| 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) | 1,844,445 |
| 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) | 2,337,256 |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2017</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) | 1,800,000 |
| 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) | 829,000 |
| 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) | 433,000 |
| 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) | 1,983,948 |
| | | | \$ 10,938,415 |

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

| | Principal Requirements | Interest Requirements | Total Debt Service Requirements |
|------|------------------------|-----------------------|---------------------------------|
| 2018 | \$ 160,000 | \$ 15,004 | \$ 175,004 |
| 2019 | 163,000 | 12,109 | 175,109 |
| 2020 | 166,000 | 9,158 | 175,158 |
| 2021 | 168,000 | 6,154 | 174,154 |
| 2022 | 172,000 | 3,114 | 175,114 |
| | \$ 829,000 | \$ 45,539 | \$ 874,539 |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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 |
|-----------|---------------------------|--------------------------|---------------------------------------|
| 2018 | \$ 982,607 | \$ 162,179 | \$ 1,144,786 |
| 2019 | 878,656 | 145,745 | 1,024,401 |
| 2020 | 891,970 | 131,688 | 1,023,658 |
| 2021 | 748,165 | 117,389 | 865,554 |
| 2022 | 672,998 | 105,167 | 778,165 |
| 2023-2027 | 3,143,814 | 350,840 | 3,494,654 |
| 2028-2032 | 2,379,957 | 123,928 | 2,503,885 |
| 2033-2035 | 411,248 | 4,957 | 416,205 |
| | <u>\$ 10,109,415</u> | <u>\$ 1,141,893</u> | <u>\$ 11,251,308</u> |

NOTE 7: CAPITAL LEASE

Governmental Activities

In 2014, the Town entered into a capital lease to finance the purchase of police vehicles at an incremental borrowing rate of 6.00%. The term of the lease is three years with payments beginning in September 2014 and going through September 2016.

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.

The Town recorded \$26,085 of depreciation expense during 2017 for these leasehold assets. The assets (recorded as Vehicles and Equipment) acquired through the capital leases are as follows:

| | |
|--------------------------------|-------------------|
| Assets: | |
| Leasehold Assets | \$ 157,162 |
| Less: Accumulated Depreciation | <u>(54,304)</u> |
| Total | <u>\$ 102,858</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> |
|--|------------------------------------|
| 2018 | \$ 28,293 |
| 2019 | <u>28,293</u> |
| Total Minimum Lease Payments | 56,586 |
| Less: Amount Representing Interest | <u>(4,678)</u> |
| Total Present Value of Net Minimum Lease Payments | <u>\$ 51,908</u> |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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. The 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 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) 1.4% 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.

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, 2017 was 19.6%. Contributions from the Town to the Plan were \$ 382,764 for the year ended June 30, 2017.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2017, the Town reported a liability of \$4,655,005 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Town's proportionate share was 0.0197296%, which was an increase of 0.0007302% from its proportion measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the Town recognized pension expense of \$534,383. At June 30, 2017, 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 | \$ - | \$ 115,259 |
| Contribution Subsequent to Measurement Date | 382,764 | - |
| Change of Assumptions | 179,193 | - |
| Changes in Proportion | 362,405 | - |
| Difference Between Projected and Actual Investment Earnings | 555,128 | - |
| Total | <u>\$ 1,479,490</u> | <u>\$ 115,259</u> |
| <u>Split of Deferred Outflow/Inflow of Resources</u> | | |
| Governmental Activities | \$ 591,797 | \$ 46,103 |
| Business-Type Activities | 887,693 | 69,156 |
| | <u>\$ 1,479,490</u> | <u>\$ 115,259</u> |

The \$382,764 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, 2018. 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> |
|------------------------|------------------------------------|--|-------------------|
| 2018 | \$ 93,109 | \$ 139,664 | \$ 232,773 |
| 2019 | 93,108 | 139,663 | 232,771 |
| 2020 | 120,366 | 180,550 | 300,916 |
| 2021 | 81,189 | 121,784 | 202,973 |
| 2022 | 4,814 | 7,220 | 12,034 |
| Total | <u>\$ 392,586</u> | <u>\$ 588,881</u> | <u>\$ 981,467</u> |

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2016 measurement date:

| | |
|---------------------------|-------------------------------------|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Inflation | 2.70% general; 3.20% wage |
| Salary Increases | 3.30% to 9.20%, including inflation |
| Investment Rate of Return | 7.55% |

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 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, 2016 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% | 6.60% |
| Private Equity | 10.00% | 7.40% |
| Rate Sensitive | 20.00% | 1.30% |
| Credit Opportunity | 9.00% | 4.20% |
| Real Assets | 15.00% | 4.70% |
| Absolute Return | 9.00% | 3.70% |

Discount Rate

The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that 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, 2017

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 7.55%. 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 (6.55%) | Current Discount Rate (7.55%) | 1% Increase (8.55%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Town's proportionate share of the Net Pension Liability | \$ 6,394,056 | \$ 4,655,005 | \$ 3,207,858 |

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 \$190,198 at June 30, 2017.

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, 2017.

TOWN OF THURMONT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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.

REQUIRED
SUPPLEMENTARY
INFORMATION

TOWN OF THURMONT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|--------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 2,314,085 | \$ 2,322,085 | \$ 2,581,754 | \$ 259,669 |
| Intergovernmental | 951,331 | 1,107,763 | 1,116,088 | 8,325 |
| Charges for Services | 161,340 | 161,340 | 147,552 | (13,788) |
| Fines, Licenses and Permits | 10,100 | 10,100 | 18,149 | 8,049 |
| Interest and Rents | 4,000 | 4,000 | 2,561 | (1,439) |
| Miscellaneous Income | - | - | 5,350 | 5,350 |
| | <hr/> | | | |
| Total Revenues | 3,440,856 | 3,605,288 | 3,871,454 | 266,166 |
| <hr/> | | | | |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 1,320,846 | 1,338,168 | 1,196,188 | 141,980 |
| Public Safety | 1,085,269 | 1,097,141 | 1,061,551 | 35,590 |
| Public Works | 135,960 | 163,305 | 145,483 | 17,822 |
| Highways and Streets | 466,169 | 466,169 | 463,730 | 2,439 |
| Recreation and Parks | 220,700 | 220,700 | 134,061 | 86,639 |
| Debt Service: | | | | |
| Principal | 182,625 | 182,625 | 210,918 | (28,293) |
| Interest | 19,385 | 19,385 | 19,384 | 1 |
| Capital Outlay | 463,727 | 463,727 | 464,034 | (307) |
| | <hr/> | | | |
| Total Expenditures (Budgetary Basis) | 3,894,681 | 3,951,220 | 3,695,349 | 255,871 |
| <hr/> | | | | |
| Differences - Budget to GAAP | | | | |
| Capital Outlay - Expenditures of Prior Year | | | | |
| Capital Lease | | | 80,201 | |
| Committed Fund Balance | | | 1,072,929 | |
| | | | <hr/> | |
| Total Expenditures (GAAP Basis) | | | 4,848,479 | |
| <hr/> | | | | |
| Deficiency of Revenues Under Expenditures (GAAP Basis) | | | (977,025) | |
| <hr/> | | | | |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | | | 7,845 | |
| Capital Lease Proceeds | | | 80,201 | |
| | | | <hr/> | |
| Total Other Financing Sources (Uses) | | | 88,046 | |
| <hr/> | | | | |
| Net Change in Fund Balance (GAAP Basis) | | | \$ (888,979) | |
| | | | <hr/> <hr/> | |

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|--------------|
| Town's proportion of the net pension liability | 0.0197296% | 0.018999% | 0.017240% |
| Town's proportionate share of the net pension liability | \$ 4,655,005 | \$ 3,948,410 | \$ 3,059,580 |
| Town's covered employee payroll | \$ 2,143,716 | \$ 1,819,197 | \$ 1,904,637 |
| Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 217.15% | 217.04% | 160.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 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 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|---------------------|
| Contractually required contribution | \$ 382,764 | \$ 384,349 | \$ 400,457 |
| Contributions in relation to the contractually determined contribution | 382,764 | 384,349 | 630,645 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (230,188)</u> |
| Town's covered - employee payroll | 2,143,716 | 1,819,197 | 1,904,637 |
| Contributions as a percentage of covered - employee payroll | 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.

OTHER
SUPPLEMENTAL
INFORMATION

TOWN OF THURMONT
 SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
 SEWER FUND
 FOR THE YEAR ENDED JUNE 30, 2017

| | <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 | \$ 1,575,136 | \$ 1,575,136 | \$ 1,604,141 | \$ 29,005 |
| Total Revenues | <u>1,575,136</u> | <u>1,575,136</u> | <u>1,604,141</u> | <u>29,005</u> |
| Operating Expenses | | | | |
| System Maintenance | 501,763 | 501,763 | 541,405 | (39,642) |
| General and Administrative | <u>275,296</u> | <u>275,296</u> | <u>228,839</u> | <u>46,457</u> |
| Total Operating Expenses (Budgetary Basis) | <u>777,059</u> | <u>777,059</u> | <u>770,244</u> | <u>6,815</u> |
| Differences - Budget to GAAP | | | | |
| Depreciation | | | <u>897,766</u> | |
| Total Operating Expenses (GAAP Basis) | | | <u>1,668,010</u> | |
| Operating Income/(Loss) (GAAP Basis) | | | <u>\$ (63,869)</u> | |

TOWN OF THURMONT
 SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
 WATER FUND
 FOR THE YEAR ENDED JUNE 30, 2017

| | <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 | \$ 916,010 | \$ 916,010 | \$ 992,892 | \$ 76,882 |
| Total Revenues | <u>916,010</u> | <u>916,010</u> | <u>992,892</u> | <u>76,882</u> |
| Operating Expenses | | | | |
| System Maintenance | 303,622 | 303,622 | 335,906 | (32,284) |
| General and Administrative | <u>259,838</u> | <u>259,838</u> | <u>216,907</u> | <u>42,931</u> |
| Total Operating Expenses (Budgetary Basis) | <u>563,460</u> | <u>563,460</u> | <u>552,813</u> | <u>10,647</u> |
| Differences - Budget to GAAP | | | | |
| Depreciation | | | <u>177,910</u> | |
| Total Operating Expenses (GAAP Basis) | | | <u>730,723</u> | |
| Operating Income/(Loss) (GAAP Basis) | | | <u>\$ 262,169</u> | |

TOWN OF THURMONT
 SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
 ELECTRIC FUND
 FOR THE YEAR ENDED JUNE 30, 2017

| | <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 | \$ 6,445,599 | \$ 6,445,599 | \$ 6,219,226 | \$ (226,373) |
| Total Revenues | <u>6,445,599</u> | <u>6,445,599</u> | <u>6,219,226</u> | <u>(226,373)</u> |
| Operating Expenses | | | | |
| Purchased Power | 4,200,000 | 4,200,000 | 4,536,907 | (336,907) |
| System Maintenance | 323,062 | 323,062 | 358,675 | (35,613) |
| General and Administrative | 847,379 | 847,379 | 848,286 | (907) |
| Total Operating Expenses (Budgetary Basis) | <u>5,370,441</u> | <u>5,370,441</u> | <u>5,743,868</u> | <u>(373,427)</u> |
| Differences - Budget to GAAP | | | | |
| Depreciation | | | <u>290,833</u> | |
| Total Operating Expenses (GAAP Basis) | | | <u>6,034,701</u> | |
| Operating Income/(Loss) (GAAP Basis) | | | <u>\$ 184,525</u> | |

Zelenkofske Axelrod LLC

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

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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 14, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying Schedule of Findings and Responses as Finding 2017-001 that we consider to be a significant deficiency.

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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Greensburg, PA 15601
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Zelenkofske Axelrod LLC

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The Town's Response to the Finding

The Town's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
November 14, 2017

TOWN OF THURMONT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

| | |
|---------------------------------|---|
| <u>Finding 2017-001</u> | <u>Accounting for Accounts Payable and Expenses</u> |
| Criteria: | The accounts of the Town should include all significant transactions in the proper period. |
| Condition: | An adjustment was made to record an additional accounts payable/expense in the Electric Fund after the Town's fiscal year-end close of the accounting records. |
| Cause: | A significant transaction was not recorded in the proper period. After June 30, 2017, the Town set up a restructured chart of accounts to be able to produce improved financial statements. An expense was manually entered in the incorrect fiscal year. |
| Effect: | The financial records did not reflect the correct financial activity of a period which could result in a misstatement of the financial statements. The Town reissued the June 30, 2017 financial statements for this correction. |
| Recommendation: | The Town should ensure that internal control procedures over financial reporting are sufficient to identify and record all significant adjustments. |
| Views of Responsible Officials: | The restructured chart of accounts was necessitated by the limitation of the existing reports available under the account structure being used. This was a one-time incident whereas there should be no future need to restructure the chart of accounts. |