

**THE COMMISSIONERS OF LEONARDTOWN
LEONARDTOWN, MARYLAND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

For the Year Ended June 30, 2018

THE COMMISSIONERS OF LEONARDTOWN

Table of Contents
June 30, 2018

	Page Number
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 -13
FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures, and Encumbrances – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	20
Statement of Net Position – Proprietary Fund – Water, Wastewater and Refuse Collection	21
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund – Water, Wastewater and Refuse Collection	22
Statement of Cash Flows – Proprietary Fund – Water, Wastewater and Refuse Collection	23
Notes to Basic Financial Statements	24 - 44
SUPPLEMENTAL INFORMATION	
Schedule of Revenues and Other Financing Sources – Budget and Actual (Budgetary Basis) – General Fund	46 - 47
Schedule of Expenditures and Other Financing Uses – Budget and Actual (Budgetary Basis) – General Fund	48 - 50
Schedule of Operating Revenues and Expenses by Segment – Proprietary Fund	51
Schedule of Revenues, Expenses, and Other Financing Sources – Budget and Actual (Budgetary Basis) – Proprietary Fund	52
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	53 - 54

INDEPENDENT AUDITORS' REPORT

The Commissioners of Leonardtown
Leonardtown, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Commissioners of Leonardtown, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 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, each major fund, and the aggregate remaining fund information of The Commissioners of Leonardtown, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 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 this 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 Commissioners of Leonardtown's basic financial statements. The schedules listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules referred to above are the responsibility of management and were derived from and relate 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

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*.

Purpose of 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.

Murray, Wamsley & Schrader, LLC

Lexington Park, Maryland
October 31, 2018

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

As management of The Commissioners of Leonardtown (the Town), we offer readers of the Town financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. Please read it in conjunction with the Town's financial statements which follow this section.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$56,999,830 (net position). Of this amount, \$1,705,414 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors, \$67,396 is restricted for future road maintenance, \$7,077,033 is restricted for future growth related projects (impact fees), and \$48,149,987 is invested in capital assets, net of related debt.
- The Town's total net position increased by \$7,888,381. After adjusting for depreciation expense and donated assets, *governmental activities* yielded an addition to net position of \$322,252. A large component of the increase in net position resulted from additions to capital assets and construction in progress of \$476,283. After adjusting for depreciation expense, donated assets and capital grants and fees, the *business type activities* yielded an addition to net position of \$654,080. The water and sewer departments yielded significant favorable operating results for FY18.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$783,195, a decrease of \$642,251 from the prior year. Fund balance is reported in the following categories: \$1,728 is classified as *nonspendable* and represents prepayments for various services; \$67,396 is restricted for future road maintenance; \$356,999 is *assigned* for a number of specific purposes. A significant component of assigned fund balance is \$145,966 which represents the local contributions required to complete the elevator and fire sprinkler projects in Town Hall, renovation of the second floor of Town Hall and Phase 1 of the new floating docks at the Wharf Park. The next most significant portion of assigned fund balance (\$64,660) is the FY19 Town share set aside for Phase 2 of the dock project at the Wharf Park. Another significant portion (\$52,800) is the amount necessary to cover many one-time capital outlay items approved in the FY19 general fund operating budget. Note I on page 37 provides a detailed accounting of the assigned portion of fund balance. The remaining \$357,072 is *unassigned* and available for spending and equals 23 percent of budgeted FY19 governmental funds operating expenditures.
- The significant decrease in unassigned fund balance is directly attributable to the additional \$400,000 principal payment made to the note payable outstanding for the Town Hall. Since occupying the current Town Hall, there has been no buyer of the two condo units previously occupied by the town. The Council approved the principal payment as a way to decrease the annual debt service on the note with funds that were earning interest at a significantly lower rate than that being paid each month. The eventual sales, either together or separately, will serve to increase unassigned fund balance back to a level closer to the 52% estimate as approved in the FY19 budget.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Overview of the financial statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected property taxes and earned, but unused, vacation leave.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, planning and zoning, public safety, public works, community development and recreation. The business-type activities of the Town include water, wastewater and refuse collection.

The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

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

The basic governmental fund financial statements can be found on pages 16 through 20 of this report.

Proprietary funds. The Town maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses one enterprise fund to account for its water, wastewater and refuse collection services.

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

The proprietary fund financial statements can be found on pages 21, 22 and 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 44 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$56,999,830 at the close of the most recent fiscal year.

By far, the largest portion of the Town's net position (84 percent) reflects its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The next largest portion of the Town's net position (13 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,705,414) may be used to meet the government's ongoing obligations to citizens and creditors.

The Commissioners of Leonardtown's Net Position

	Governmental Activities		Business-type activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 1,016,369	\$ 1,629,414	\$ 8,944,512	\$ 10,440,696	\$ 9,960,881	\$ 12,070,110
Capital assets	<u>22,881,927</u>	<u>18,193,220</u>	<u>33,670,617</u>	<u>29,940,865</u>	<u>56,552,544</u>	<u>48,134,085</u>
Total assets	<u>\$ 23,898,296</u>	<u>\$ 19,822,634</u>	<u>\$ 42,615,129</u>	<u>\$ 40,381,561</u>	<u>\$ 66,513,425</u>	<u>\$ 60,204,195</u>
Long-term debt outstanding	\$ 1,217,428	\$ 1,737,523	\$ 7,185,130	\$ 7,601,327	\$ 8,402,558	\$ 9,338,850
Other liabilities	<u>267,129</u>	<u>206,048</u>	<u>843,908</u>	<u>1,547,848</u>	<u>1,111,037</u>	<u>1,753,896</u>
Total liabilities	<u>\$ 1,484,557</u>	<u>\$ 1,943,571</u>	<u>\$ 8,029,038</u>	<u>\$ 9,149,175</u>	<u>\$ 9,513,595</u>	<u>\$ 11,092,746</u>
Net position						
Invested in capital assets, net of related debt	21,664,499	16,455,696	26,485,488	22,339,538	48,149,987	38,795,234
Restricted	<u>67,396</u>	<u>81,609</u>	<u>7,077,033</u>	<u>8,373,470</u>	<u>7,144,429</u>	<u>8,455,079</u>
Unrestricted	<u>681,844</u>	<u>1,341,758</u>	<u>1,023,570</u>	<u>519,378</u>	<u>1,705,414</u>	<u>1,861,136</u>
Total net position	<u>\$ 22,413,739</u>	<u>\$ 17,879,063</u>	<u>\$ 34,586,091</u>	<u>\$ 31,232,386</u>	<u>\$ 56,999,830</u>	<u>\$ 49,111,449</u>

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

The Commissioners of Leonardtown's Changes in Net Position

	Governmental Activities		Business-type activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for service	\$ 34,423	\$ 69,534	\$ 2,333,084	\$ 2,374,138	\$ 2,367,507	\$ 2,443,672
Operating grants	144,379	139,136	-	-	144,379	139,136
Capital grants	5,003,636	335,657	3,817,006	4,751,332	8,820,642	5,086,989
General revenues						
Property taxes	605,379	604,151	-	-	605,379	604,151
Other taxes	561,663	917,185	-	-	561,663	917,185
Other	97,743	89,056	109,555	62,591	207,298	151,647
Total revenues	<u>6,447,223</u>	<u>2,154,719</u>	<u>6,259,645</u>	<u>7,188,061</u>	<u>12,706,868</u>	<u>9,342,780</u>
Expenses						
General government	478,676	768,028	-	-	478,676	768,028
Community development	176,453	135,573	-	-	176,453	135,573
Planning and zoning	104,739	98,874	-	-	104,739	98,874
Public safety	69,420	37,846	-	-	69,420	37,846
Public works	708,021	532,987	-	-	708,021	532,987
Parks and recreation	375,238	332,029	-	-	375,238	332,029
Water	-	-	499,492	455,693	499,492	455,693
Wastewater	-	-	1,752,558	1,749,323	1,752,558	1,749,323
Refuse	-	-	653,890	633,154	653,890	633,154
Total expenses	<u>1,912,547</u>	<u>1,905,337</u>	<u>2,905,940</u>	<u>2,838,170</u>	<u>4,818,487</u>	<u>4,743,507</u>
Change in net position	4,534,676	249,382	3,353,705	4,349,891	7,888,381	4,599,273
Net position -						
beginning of year	<u>17,879,063</u>	<u>17,629,681</u>	<u>31,232,386</u>	<u>26,882,495</u>	<u>49,111,449</u>	<u>44,512,176</u>
Net position - end of year	<u>\$ 22,413,739</u>	<u>\$ 17,879,063</u>	<u>\$ 34,586,091</u>	<u>\$ 31,232,386</u>	<u>\$ 56,999,830</u>	<u>\$ 49,111,449</u>

Governmental activities. Governmental activities increased the Town's net position by \$4,534,676. The key element of this increase is the addition to capital assets of \$5,286,594, offset by depreciation of \$597,887. The addition to capital assets resulted from 1) donated capital assets of \$4,810,311, 2) construction in progress of \$368,475, 3) purchase of capital assets of \$98,309 and 4) construction of capital assets of \$9,499.

Business-type activities. Business-type activities increased the Town's net position by \$3,353,705. Capital contributions are detailed below.

- Donations of water and sewer assets were valued at \$1,771,013.
- Capacity allocation fees of \$131,733 were collected.
- Impact fees of \$606,800 were collected.
- Grant proceeds of \$1,267,651 were received from the State of Maryland for the Enhanced Nutrient Removal (ENR) Project recently completed at the Leonardtown wastewater treatment plant.
- Metcomm's capital contribution toward the ENR Project was \$32,731.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$783,195, a decrease of \$642,251 in comparison to the prior year. Approximately 46 percent of this total amount (\$357,072) constitutes *unassigned* fund balance, which is available for spending at the government's discretion. The next largest component of fund balance is *assigned* for several specific purposes and totals \$356,999. The intended uses of this balance are detailed in Note I on page 37. \$67,396 of fund balance is restricted for future road maintenance. The insignificant remainder of fund balance is *nonspendable* and represents services paid for in advance.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$377,752, while total fund balance decreased to \$803,875. As a measure of the general fund's liquidity, it may be useful to compare *unassigned* fund balance to total fund expenditures. *Unassigned* fund balance of the general fund represents 25 percent of budgeted FY19 general fund operating expenditures.

The fund balance of the Town's general fund decreased by \$642,251 during the current fiscal year. \$400,000 of this decrease is a direct result of an advance principal repayment on the outstanding note payable for the Town Hall. As explained previously, the sale of two condos will result in increases to fund balance when they occur. Another significant portion of this decrease is the revenue shortfall of \$98,589 for income tax during FY18. Despite continued population growth and anecdotal evidence that the Town was previously underpaid for income tax, this revenue source, minus the one-time catchup adjustment, was 6.5% lower than FY17 actual. It may take a few years to develop a new trend analysis of this revenue source after modifications were made on the Maryland income tax forms to improve municipal reporting. The balance of the decrease was planned to pay for one time capital items and construction projects.

Proprietary fund. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise fund at the end of the year amounted to \$1,023,570. The total increase in net position for the fund was \$3,353,705. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

General Fund Budgetary Highlights

The final approved budget for the general fund increased by \$517,360 over the original approved budget. Several amendments were necessary to fund unanticipated expenditures, the largest of which was the \$400,000 advance principal payment on the Town Hall note obligation. The next largest amendment was \$71,350 to fund renovations to the second floor of Town Hall.

During the year, revenues were less than budgetary estimates by \$89,587, and expenditures were \$105,567 less than budgeted.

- As mentioned previously, a deficit in income tax revenue accounts for a significant portion of the general fund revenue deficit. This revenue source can be volatile, as it is tied to the timing of residents filing income tax returns.
- All but one department yielded expenditure savings. The positive departmental results demonstrate that the town continues to embrace and follow a culture of fiscal responsibility. Details of all departmental results can be found in the supplemental reports found on pages 48 – 50.

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to \$56,552,544 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, streets, infrastructure, machinery and equipment. The total increase in the Town's investment in capital assets was 17 percent (a 26% increase for governmental activities and a 12% increase for business-type activities).

Depreciation of \$1,715,268 was significantly offset by additions to capital assets and construction in progress for various capital projects.

Assets donated by developers in FY18 totaled \$4,810,311 for the governmental activities and \$1,771,013 for business type activities.

In July 2015, construction began on the Enhanced Nutrient Removal and Upgrade project at the wastewater treatment plant. At 6/30/18 construction was virtually complete and valued and capitalized at \$21,076,800.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

The Commissioners of Leonardtown's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,899,561	\$ 4,899,561	\$ 23,051	\$ 23,051	\$ 4,922,612	\$ 4,922,612
Construction in progress	375,436	6,961	23,500	18,809,873	398,936	18,816,834
Buildings and improvements	1,612,329	1,672,031	24,988,619	4,433,349	26,600,948	6,105,380
Improvements other than buildings	3,145,385	3,325,686	-	-	3,145,385	3,325,686
Equipment	29,529	21,352	344,272	367,924	373,801	389,276
Infrastructure	<u>12,819,687</u>	<u>8,267,629</u>	<u>8,291,175</u>	<u>6,306,668</u>	<u>21,110,862</u>	<u>14,574,297</u>
Total capital assets	<u>\$22,881,927</u>	<u>\$18,193,220</u>	<u>\$33,670,617</u>	<u>\$29,940,865</u>	<u>\$56,552,544</u>	<u>\$ 48,134,085</u>

Additional information on the Town's capital assets can be found in Note E on pages 34 and 35 of this report.

Debt Administration

At the end of the current fiscal year, the Town had total debt outstanding of \$8,402,558. \$7,185,130 of this debt is a note payable to the Maryland Water Quality Financing Administration related to the Enhanced Nutrient Removal Project for the wastewater treatment plant. \$1,032,312 is the balance of mortgage debt related to property acquisition at the Wharf Park. The remaining balance of \$185,116 is a note payable related to property acquisition of a new Town Hall.

The Town's total debt decreased by \$936,292.

Additional information on the Town's long-term debt can be found in Note F on pages 35 and 36 of this report.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

Economic Factors and Next Year's Budgets and Rates

- Residential and commercial growth in Leonardtown remains robust. Clark's Rest continues to prosper and add new residents to Leonardtown. As of the end of the fiscal year, 119 homes had been occupied. The total project includes 335 residential units and a small amount of commercial establishments. The construction of the Hamptons apartment complex is fully underway and should add income tax revenue as it is occupied over the next several years. Property taxes for this location are subject to a Tax Abatement agreement and will not add to the Town revenue budget until several years from now.
- The property tax rate remains at \$.1266 per \$100 of assessed valuation. The tax rate has remained unchanged since July 1, 2013 and is one of the lowest municipal rates in the State of Maryland.
- To offset multiple years of reductions in state aid to municipalities, the State of Maryland has again approved supplemental capital grants. Leonardtown's supplemental capital grant of \$102,136 will be received in FY19 and has been appropriated for road maintenance. During the FY18 legislative session, a bill was approved that will significantly increase this revenue source to Leonardtown and other state municipalities for five years beginning in FY20.
- Income tax revenue bears watching during this coming year. FY18 results were well below budget and less than FY17 actual. Although this revenue source can be volatile, it should be reasonable to assume this revenue source would grow year over year as population grows in Leonardtown and the economy continues to prosper. It is too early to estimate whether FY19 revenue will fall below budget.
- There is no significant change in the type or level of services to be provided.
- The FY19 budget does include a significant appropriation of fund balance, but all related to one-time capital items.
- *Unassigned* fund balance is well below the Council's targeted threshold of 50% of general fund operating expenditures. This is a direct result of the \$400,000 additional principal payment on the Town Hall note obligation. Fund balance should come close to returning to this target when the two condo units are sold. Until that time, the Town Council shall take care to avoid any unbudgeted expenses.
- Effective July 1, 2018, wastewater service charges were increased by 2%. This increase was in accordance with a Town ordinance that was passed in 1997 to level out spikes in rate increases. After analyzing consumption habits and revenue billed, water rates were not increased for FY19. The service charges for trash collection were increased 2% for residential and commercial accounts. This increase covers the contracted inflation escalation rates which took effect on July 1, 2018.

**THE COMMISSIONERS OF LEONARDTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

- Despite a temporary dip in unassigned fund balance, Leonardtown remains financially sound. There continues to be interest in future residential and commercial development. The most challenging issue that will be faced by the Mayor and Council in the coming years is construction of infrastructure to accommodate growth. Ensuring affordability for taxpayers, residents, and businesses must be balanced with the capital expenditures that will be required. These types of capital commitments will affect future Town budgets for decades to come.

Requests 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 requests for additional financial information should be addressed to the Treasurer, P. O. Box 1, Leonardtown, MD 20650.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 84,262	\$ -	\$ 84,262
Investments	1,649,001	-	1,649,001
Receivables, net	39,227	546,570	585,797
Intergovernmental receivables	80,658	445,776	526,434
Internal balances	(838,540)	838,540	-
Restricted cash and investments	-	7,077,033	7,077,033
Other	1,761	36,593	38,354
Net capital assets	<u>22,881,927</u>	<u>33,670,617</u>	<u>56,552,544</u>
Total assets	<u>\$ 23,898,296</u>	<u>\$ 42,615,129</u>	<u>\$ 66,513,425</u>
LIABILITIES			
Accounts payable	\$ 211,323	\$ 692,126	\$ 903,449
Other liabilities	5,127	29,965	35,092
Accrued interest payable	-	53,591	53,591
Noncurrent liabilities			
Due within one year	141,697	365,583	507,280
Due in more than one year	<u>1,126,410</u>	<u>6,887,773</u>	<u>8,014,183</u>
Total liabilities	1,484,557	8,029,038	9,513,595
NET POSITION			
Net investment in capital assets	21,664,499	26,485,488	48,149,987
Restricted			
Road maintenance	67,396	-	67,396
Impact fees	-	7,077,033	7,077,033
Unrestricted	<u>681,844</u>	<u>1,023,570</u>	<u>1,705,414</u>
Total net position	<u>22,413,739</u>	<u>34,586,091</u>	<u>56,999,830</u>
Total liabilities and net position	<u>\$ 23,898,296</u>	<u>\$ 42,615,129</u>	<u>\$ 66,513,425</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Primary Government							
Governmental activities							
General government	\$ 426,538	\$ -	\$ -	\$ 179,168	\$ (247,370)	\$ -	\$ (247,370)
Community development	176,453	2,474	3,950	5,000	(165,029)	-	(165,029)
Planning and zoning	104,739	31,949	2,000	-	(70,790)	-	(70,790)
Public safety	69,420	-	11,958	-	(57,462)	-	(57,462)
Public works	708,021	-	126,171	4,810,311	4,228,461	-	4,228,461
Recreation and parks	375,238	-	300	9,157	(365,781)	-	(365,781)
Interest expense on long-term debt	<u>52,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,138)</u>	<u>-</u>	<u>(52,138)</u>
Total governmental activities	1,912,547	34,423	144,379	5,003,636	3,269,891	-	3,269,891
Business-type activities							
Water	499,492	486,741	-	698,215	-	685,464	685,464
Wastewater	1,752,558	1,180,544	-	3,118,791	-	2,546,777	2,546,777
Refuse	<u>653,890</u>	<u>665,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,909</u>	<u>11,909</u>
Total business-type activities	<u>2,905,940</u>	<u>2,333,084</u>	<u>-</u>	<u>3,817,006</u>	<u>-</u>	<u>3,244,150</u>	<u>3,244,150</u>
Total primary government	<u>\$ 4,818,487</u>	<u>\$ 2,367,507</u>	<u>\$ 144,379</u>	<u>\$ 8,820,642</u>	3,269,891	3,244,150	6,514,041
General revenues							
Property taxes					605,380	-	605,380
Income tax					526,411	-	526,411
Other local taxes					35,251	-	35,251
Licenses and permits					25,696	-	25,696
Contributions not restricted to specific programs					44,916	-	44,916
Investment earnings					21,359	99,318	120,677
Other revenue					<u>5,772</u>	<u>10,237</u>	<u>16,009</u>
Total general revenues					<u>1,264,785</u>	<u>109,555</u>	<u>1,374,340</u>
Change in net position					4,534,676	3,353,705	7,888,381
Net position - beginning					<u>17,879,063</u>	<u>31,232,386</u>	<u>49,111,449</u>
Net position - ending					<u>\$ 22,413,739</u>	<u>\$ 34,586,091</u>	<u>\$ 56,999,830</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 84,262	\$ -	\$ -	\$ 84,262
Investments	1,649,001	-	-	1,649,001
Receivables, net	39,227	-	-	39,227
Intergovernmental receivables	69,471	11,187	-	80,658
Other assets	1,761	-	-	1,761
Due from other funds	<u>31,812</u>	<u>-</u>	<u>-</u>	<u>31,812</u>
Total assets	<u>\$ 1,875,534</u>	<u>\$ 11,187</u>	<u>\$ -</u>	<u>\$ 1,886,721</u>
LIABILITIES				
Accounts payable	\$ 211,268	\$ 55	\$ -	\$ 211,323
Other liabilities	5,127	-	-	5,127
Due to other funds	<u>838,540</u>	<u>11,132</u>	<u>20,680</u>	<u>870,352</u>
Total liabilities	1,054,935	11,187	20,680	1,086,802
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>16,724</u>	<u>-</u>	<u>-</u>	<u>16,724</u>
FUND BALANCES				
Nonspendable	1,728	-	-	1,728
Restricted	67,396	-	-	67,396
Assigned	356,999	-	-	356,999
Unassigned	<u>377,752</u>	<u>-</u>	<u>(20,680)</u>	<u>357,072</u>
Total fund balances	<u>803,875</u>	<u>-</u>	<u>(20,680)</u>	<u>783,195</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,875,534</u>	<u>\$ 11,187</u>	<u>\$ -</u>	<u>\$ 1,886,721</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2018

Fund balance of governmental funds (page 16) \$ 783,195

Amounts reported for governmental activities in the statement of net position
are different because:

Capital assets used in governmental activities are not current financial
resources and are not reported in the governmental funds. 22,881,927

Other long-term assets are not available to pay for current period
expenditures and are reported as deferred inflows of resources
in the funds.

Property taxes receivable	4,307
Accommodation tax receivable	6,563
Interest income receivable	5,854

Long-term liabilities are not due and payable in the current period and
are not reported as liabilities in the governmental funds.

Mortgage obligation	(1,032,312)
Note payable	(185,116)
Accrued compensated absences	(39,334)
Health insurance obligations	<u>(11,345)</u>

Net position of governmental activities (page 14) \$ 22,413,739

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$1,255,880	\$ -	\$ -	\$ 1,255,880
Licenses and permits	83,625	-	-	83,625
Intergovernmental	82,049	188,325	2,000	272,374
Charges for services	4,224	-	-	4,224
Miscellaneous	<u>41,061</u>	<u>-</u>	<u>-</u>	<u>41,061</u>
Total revenues	1,466,839	188,325	2,000	1,657,164
EXPENDITURES				
Current				
General government	412,369	239,249	-	651,618
Community development	196,766	-	-	196,766
Planning and zoning	101,773	-	-	101,773
Public safety	69,316	-	-	69,316
Public works	566,299	-	-	566,299
Recreation and parks	125,684	13,725	-	139,409
Grant expenditures	-	-	2,000	2,000
Debt service				
Principal	520,096	-	-	520,096
Interest	<u>52,138</u>	<u>-</u>	<u>-</u>	<u>52,138</u>
Total expenditures	<u>2,044,441</u>	<u>252,974</u>	<u>2,000</u>	<u>2,299,415</u>
Excess (deficiency) of revenues over expenditures	(577,602)	(64,649)	-	(642,251)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(64,649)</u>	<u>64,649</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	(64,649)	64,649	-	-
Net change in fund balances	(642,251)	-	-	(642,251)
Fund balances (deficit) – beginning	<u>1,446,126</u>	<u>-</u>	<u>(20,680)</u>	<u>1,425,446</u>
Fund balances (deficit) – ending	<u>\$ 803,875</u>	<u>\$ -</u>	<u>\$(20,680)</u>	<u>\$ 783,195</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Net change in fund balance – total governmental funds (page 18) \$ (642,251)

Amounts reported for governmental activities in the statement of activities (page 15)
are different because:

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds.

Donated capital assets	4,810,311
Change in deferred property taxes	186
Change in deferral of accommodation taxes	(18,612)
Change in deferral of interest income	(1,826)

The issuance of long term debt (e.g., bonds, loans) provides current financial
resources to governmental funds, while the repayment of the principal of
long-term debt consumes the current financial resources of governmental
funds but does not affect net position.

Repayment of principal	520,096
------------------------	---------

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the costs of capital assets are capitalized and
subsequently depreciated over their useful life.

Purchase of capital assets	98,309
Construction of capital assets	9,499
Construction in progress	368,475
Depreciation expense	(597,887)

Some expenses reported in the statement of activities do not require the
use of current financial resources and are not reported as expenditures
in governmental funds.

Change in compensated absences	(6,364)
Change in health insurance contribution liability	<u>(5,260)</u>

Change in net position of governmental activities (page 15)	<u>\$ 4,534,676</u>
---	---------------------

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – GENERAL FUND
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,362,954	\$ 1,362,954	\$ 1,256,066	\$(106,888)
Licenses and permits	74,850	74,850	83,625	8,775
Intergovernmental	75,416	75,416	63,437	(11,979)
Charges for services	1,500	1,500	4,224	2,724
Miscellaneous	<u>15,600</u>	<u>15,600</u>	<u>33,381</u>	<u>17,781</u>
Total revenues	1,530,320	1,530,320	1,440,733	(89,587)
EXPENDITURES AND ENCUMBRANCES				
General government	613,452	1,035,862	998,776	37,086
Community development	202,550	223,250	197,985	25,265
Planning and zoning	108,723	111,623	102,739	8,884
Public safety	79,631	79,631	69,420	10,211
Public works	613,578	613,578	572,694	40,884
Recreation and parks	<u>108,409</u>	<u>108,409</u>	<u>125,172</u>	<u>(16,763)</u>
Total expenditures and encumbrances	<u>1,726,343</u>	<u>2,172,353</u>	<u>2,066,786</u>	<u>105,567</u>
Excess (deficiency) of revenues over expenditures and encumbrances	(196,023)	(642,033)	(626,053)	15,980
OTHER FINANCING SOURCES(USES)				
Appropriation of prior year fund balance	330,720	848,080	-	(848,080)
Operating transfers in(out)	<u>(134,697)</u>	<u>(206,047)</u>	<u>(64,649)</u>	<u>141,398</u>
Total other financing sources(uses)	<u>196,023</u>	<u>642,033</u>	<u>(64,649)</u>	<u>(706,682)</u>
Excess (deficiency) of revenues and other sources over expenditures and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (690,702)</u>	<u>\$(690,702)</u>
RECONCILIATION OF THE BUDGETARY GENERAL FUND TO THE GAAP GENERAL FUND				
Excess (deficiency) of revenues and other sources over expenditures and encumbrances - budgetary basis				\$ (690,702)
Timing difference of revenue recognition				26,106
Effect of year end salary accrual				(5,008)
Effect of encumbrances				22,093
Effect of future health insurance reimbursements				<u>5,260</u>
Excess (deficiency) of revenues over expenditures - GAAP basis (page 18)				<u>\$(642,251)</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF NET POSITION
PROPRIETARY FUND – WATER, WASTEWATER AND REFUSE COLLECTION
June 30, 2018

ASSETS

Current Assets

Receivables, net	\$ 546,570
Intergovernmental receivables	445,776
Other receivables	7,778
Due from general fund	<u>838,540</u>
Total current assets	1,838,664

Noncurrent Assets

Restricted cash and investments	7,077,033
Other	28,815
Net capital assets	<u>33,670,617</u>
Total noncurrent assets	<u>40,776,465</u>

Total assets \$ 42,615,129

LIABILITIES

Current Liabilities

Accounts payable	\$ 692,126
Accrued interest payable	53,591
Other liabilities	29,965
Current portion of long-term debt	<u>320,538</u>
Total current liabilities	1,096,220

Noncurrent Liabilities

Long-term debt, net of current portion	6,864,592
Compensated absences	12,348
Other noncurrent liabilities	<u>55,878</u>
Total noncurrent liabilities	<u>6,932,818</u>
Total liabilities	8,029,038

NET POSITION

Net investment in capital assets	26,485,488
Restricted	
Impact fees	7,077,033
Unrestricted	<u>1,023,570</u>
Total net position	<u>34,586,091</u>

Total liabilities and net position \$ 42,615,129

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND – WATER, WASTEWATER AND REFUSE COLLECTION
For the Year Ended June 30, 2018

Operating Revenues	
Water service charges	\$ 486,741
Sewer service charges	931,354
Refuse collection charges	665,799
Metcomm service fees	126,360
Late charges/fees collected	<u>10,237</u>
Total operating revenues	2,220,491
Operating Expenses	<u>1,762,122</u>
Operating income before depreciation	458,369
Depreciation	<u>1,117,381</u>
Operating loss	(659,012)
Nonoperating Revenues (Expenses)	
Interest income	99,318
Interest expense	(26,437)
Metcomm debt service reimbursement	<u>122,830</u>
Total nonoperating revenues (expenses)	<u>195,711</u>
Loss before contributions	(463,301)
Capital contributions	
ENR grant	1,267,651
Impact fees	606,800
Capacity allocation fees	131,733
Donated water and sewer assets	1,771,013
Customer capital reimbursement	7,078
Metcomm capital reimbursement	<u>32,731</u>
	<u>3,817,006</u>
Change in net position	3,353,705
Total net position – beginning	<u>31,232,386</u>
Total net position – ending	<u>\$ 34,586,091</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND – WATER, WASTEWATER AND REFUSE COLLECTION
For the Year Ended June 30, 2018

Cash flows from operating activities	
Receipts from customers and users	\$ 2,222,212
Payments to suppliers	(1,193,173)
Payments to employees	(585,133)
Late charges/fees collected	<u>10,237</u>
Net cash provided by operating activities	454,143
Cash flows from noncapital financing activities	
Net cash received from other funds	180,917
Receipts payable to third parties	<u>1,640</u>
Net cash provided by noncapital financing activities	182,557
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(3,615,130)
Capital contributions	
Capacity allocation fees	131,733
Impact fees	606,800
Grant proceeds	1,327,044
Metcomm debt service reimbursement	110,644
Principal paid on capital debt	(416,197)
Interest paid on capital debt	<u>(177,349)</u>
Net cash used by capital and related financing activities	(2,032,455)
Cash flows from investing activities	
Interest income	<u>99,318</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,296,437)
Cash and cash equivalents, beginning of year	<u>8,373,470</u>
Cash and cash equivalents, end of year	<u>\$ 7,077,033</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (659,012)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,117,381
Changes in assets and liabilities:	
(Increase) in accounts receivable	(46,209)
Decrease in other receivables	57,642
(Decrease) in accounts payable and accrued expenses	<u>(15,659)</u>
Net cash provided by operating activities	<u>\$ 454,143</u>
Noncash investing, capital, and financing activities	
Contributions of capital assets from developers	<u>\$ 1,771,013</u>

See notes to financial statements.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Commissioners of Leonardtown (the Town) is a municipal corporation governed by an elected mayor and five-member council. The Town provides most basic local governmental services except education, which is provided through the St. Mary's County Board of Education.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government. *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 the direct expenses of a given function or segment is offset 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 governmental funds and the proprietary fund. The general and capital projects funds are major funds and reported in separate columns. The other governmental fund column represents the single remaining special revenue fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property 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.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The financial statements of the Town are prepared in accordance with U. S. generally accepted accounting principles (GAAP) as applicable to governments.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, there is one exception to this policy. In cases of reimbursement grants, revenues are recognized when eligible expenditures are made. This policy allows revenue to be recognized in the same period as the grant expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, health reimbursement claims, and claims and judgments, are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, revenue from other agencies, charges for services and interest revenue. Licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

The Town has two major governmental funds, the general fund and the capital projects fund. The general fund is used to account for all activities of the government not accounted for in some other fund. The general fund accounts for the normal recurring activities of the Town such as general government, community development, planning and zoning, law enforcement, public works and recreation and parks. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

The capital projects fund is used to account for all financial resources used for acquisition or construction of major capital facilities not financed by the proprietary fund. Transfers are used to move unrestricted revenues collected in the general fund for use in the capital projects fund.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, *general revenues* include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for services and expenses such as salaries, product costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town operates one proprietary fund which accounts for water, wastewater and refuse collection services provided to users.

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.

Assets, Liabilities, and Net Position or Equity

Deposits and investments

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 the date of acquisition. All Town cash receipt and disbursement transactions are initiated in the General Fund, and amounts applicable to other funds are transferred through the respective interfund receivable and payable accounts.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statutes authorize the Town to invest in obligations of the United States government, its agencies or instrumentalities, certificates of deposit, prime banker's acceptances, investment grade obligations of state and local governments and public authorities, certain money market mutual funds, savings and loan association deposits, and the Maryland Local Government Investment Pool.

For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments (including restricted assets) with a remaining maturity of three months or less when purchased to be cash equivalents.

Restricted cash and investments consist of water and sewer impact fees collected by the Town but not yet expended for certain capital improvements.

Receivables and payables

Trade and property taxes receivables are generally fully collectible due to the Town's ability to put a lien on property for past due amounts. During FY18 there were no utility customers that required write off of uncollectible amounts.

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Restricted net assets

Impact fees collected for new water and sewer connections are classified as restricted on the Statement of Net Position because they are maintained in separate investment accounts, and their use is limited by ordinance to growth related projects.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, storm drains and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. General infrastructure assets include all roads and other infrastructure assets acquired subsequent to June 30, 2003. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized. Expenditures for major assets and improvements are capitalized as projects are constructed. Interest on debt during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Exhaustible capital assets of the general fund and proprietary funds are depreciated, which is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are generally as follows:

Buildings and improvements	5 - 50 years
Wastewater and collection systems	15 - 50 years
Water systems	15 - 50 years
Equipment and vehicles	5 - 20 years

Long-term obligations

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

Compensated absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick leave. 100 percent of vacation pay and sick leave balances in excess of 960 hours are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Each employee may carry over a maximum of 80 hours vacation leave at the end of each fiscal year. Payments for unused sick leave are limited to a total of 480 hours.

Health reimbursement account contributions

It is the Town's policy to permit employees to accumulate contributions made by the Town to their individual health reimbursement accounts. All health reimbursement contributions are accrued when incurred in the government wide, proprietary fund and budgetary basis financial statements. Governmental fund financial statements report these expenses as claims are made and classify unspent health reimbursement balances as assigned fund balance.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization of Interest

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of fixed assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition or construction of qualifying assets is offset against interest costs in determining the amount to be capitalized. Of the \$162,382 interest cost incurred during FY18, \$135,945 was capitalized.

Fund equity

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Net investment in capital assets* – This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed 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, or laws and regulations of other governments.
- *Unrestricted net position* – This category presents the net position of the Town, not restricted for any purpose.

In the fund financial statements, fund balance is reported in five classifications. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are as follows:

- *Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.
- *Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditor, grantors, contributors, or laws and regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *Committed* – The committed fund balance classification includes amounts that can be used only for specific purposes imposed by formal action of the Town Council set in place prior to the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action it employed to previously commit those balances.
- *Assigned* – The assigned fund balance classification reflects the intended use of resources for specific purposes but do not meet the criteria to be classified as restricted or committed. These assignments are primarily established by the Town Council, but the Council may also choose to delegate that authority to another body or official.
- *Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in other classifications. In the special revenue fund, the unassigned classification is used only to report a deficit balance.

In the absence of a formal policy, the Town shall use the following hierarchy for spending resources: restricted fund balances shall be used first, followed in order by committed, assigned and then unassigned.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Mayor and Council follow these procedures in establishing the budget data reflected in the financial statements:

- 1) Prior to May 20th of any fiscal year, the Mayor shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures at the department level and the means of financing them.
- 2) A public hearing is conducted to obtain taxpayer comments.
- 3) The budget is adopted through a majority vote by the Council prior to June 30.
- 4) All budget amendments between funds and/or categories must be submitted to the Mayor and Council for approval. The Treasurer is authorized to approve budget amendments within categories.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- 6) Appropriations not spent or encumbered lapse at the end of the fiscal year.
- 7) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the following:
 - the inclusion of the full property tax levy as revenue
 - the inclusion of encumbrances as expenditures
 - the exclusion of changes in the year end salary accrual
 - the inclusion of unspent contributions to employee health reimbursement accountsBudget comparisons in this report are on a non-GAAP budgetary basis.
- 8) The budgeted amounts included in the Town's financial statements are as originally adopted, or as amended and approved by Council.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

**Reconciliation of Revenues and Expenditures – Budgetary Basis
and GAAP Basis**

The general fund statement of revenues, expenditures, and encumbrances, budget and actual (non-GAAP budgetary basis) includes a reconciliation between *the excess (deficiency) of revenues over expenditures and encumbrances* and *the excess (deficiency) of revenues over expenditures – GAAP basis* as reported in the governmental funds financial statement. Property taxes and other revenues collected more than 60 days past year end are deferred in the fund financial statements. Salaries due but unpaid at year end are accrued in the fund financial statements. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the budgetary basis statements. Commitments for unspent employee health reimbursement account (HRA) contributions receive similar treatment. Encumbrances and HRA balances outstanding at year-end do not constitute expenditures or liabilities in the fund financial statements because the commitments will be honored during the subsequent year(s).

Revenues – budgetary basis	\$ 1,440,733
Change in property tax deferral	(186)
Change in interest income deferral	7,680
Change in accommodation tax deferral	<u>18,612</u>
Revenues – GAAP basis	<u>\$ 1,466,839</u>
Expenditures – budgetary basis	\$ 2,066,786
To adjust for salary accrual	5,008
To adjust for encumbrances	(22,093)
To adjust for future health reimbursement claims	<u>(5,260)</u>
Expenditures – GAAP basis	<u>\$ 2,044,441</u>

NOTE C - DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of bank failure, the Town's deposits might not be recovered. At year-end the Town was in compliance with state law which requires that deposits with financial institutions by local government units be fully collateralized.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE C - DEPOSITS AND INVESTMENTS (continued)

At year-end, the carrying amount of the Town's deposits was \$84,102 and the bank balance was \$219,624. The bank balance and certificates of deposit balance were fully covered by \$250,000 of federal depository insurance and an additional \$2,694,817 (market value at June 30, 2018) in securities pledged as collateral held by the Bank's agent in the Bank's name.

The Town's investments at June 30, 2018 are shown below.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investment in Maryland Local Government Investment Pool	\$ 8,101,805	\$ 8,101,805
Certificates of deposit	\$ 624,230	\$ 624,230

The Maryland Local Government Investment Pool (MLGIP) is managed by PNC Capital Advisors, LLC and administered by the State Treasurer. MLGIP is rated AAAM by Standard and Poors (its highest rating for money market funds). The MLGIP seeks to maintain a constant unit value of \$1.00. Unit value is computed using the amortized cost method. In addition, the net asset value of the Pool, marked to market, is calculated and maintained on a daily basis to ensure a \$1.00 per unit constant value.

At June 30, 2018 approximately 87% of the MLGIP balance is reported in the Proprietary fund. Investment income earned on those accounts is reported in the Proprietary fund. The remainder of the MLGIP balance is reported in the General fund and, along with several other cash accounts, represents commingled cash balances utilized for receipts and disbursements for all funds. For FY18, investment income of \$16,477 was assigned to the water department in the Proprietary Fund.

NOTE D - PROPERTY TAX

Real property taxes are levied, due and payable on July 1 of each fiscal year with levies based on assessments as certified by the State of Maryland Department of Assessments and Taxation. On October 1, such taxes are overdue and in arrears, at which time a penalty of 3 percent is assessed and interest begins accruing at 1 percent for each month property taxes are delinquent. In accordance with local law, property with delinquent taxes must be sold following state-provided procedures or by local tax sale. Delinquent taxes are collected, after the eighteenth month of delinquency, by tax sales conducted by St. Mary's County.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE E - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 4,899,561	\$ -	\$ -	\$ 4,899,561
Construction in progress	<u>6,961</u>	<u>368,475</u>	<u>-</u>	<u>375,436</u>
Total capital assets, not being depreciated	4,906,522	368,475	-	5,274,997
Capital assets being depreciated				
Buildings and improvements	2,078,597	-	-	2,078,597
Improvements other than buildings	5,078,820	34,468	-	5,113,288
Streets and infrastructure	9,875,190	4,869,293	-	14,744,483
Machinery and equipment	<u>120,315</u>	<u>14,358</u>	<u>14,731</u>	<u>119,942</u>
Total capital assets being depreciated	17,152,922	4,918,119	14,731	22,056,310
Accumulated depreciation				
Buildings and improvements	(406,566)	(59,702)	-	(466,268)
Improvements other than buildings	(1,753,133)	(214,769)	-	(1,967,902)
Streets and infrastructure	(1,607,561)	(317,235)	-	(1,924,796)
Machinery and equipment	<u>(98,964)</u>	<u>(6,181)</u>	<u>14,731</u>	<u>(90,414)</u>
Total accumulated depreciation	<u>(3,866,224)</u>	<u>(597,887)</u>	<u>14,731</u>	<u>(4,449,380)</u>
Total capital assets being depreciated, net	<u>13,286,698</u>	<u>4,320,232</u>	<u>-</u>	<u>17,606,930</u>
Governmental activities capital assets, net	<u>\$18,193,220</u>	<u>\$ 4,688,707</u>	<u>\$ -</u>	<u>\$22,881,927</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 23,051	\$ -	\$ -	\$ 23,051
Construction in progress	<u>18,809,873</u>	<u>3,053,569</u>	<u>21,839,942</u>	<u>23,500</u>
Total capital assets not being depreciated	18,832,924	3,053,569	21,839,942	46,551
Capital assets being depreciated				
Buildings and improvements	10,575,589	21,350,077	-	31,925,666
Infrastructure	10,045,911	2,260,878	-	12,306,789
Machinery and equipment	<u>822,188</u>	<u>22,551</u>	<u>28,931</u>	<u>815,808</u>
Total capital assets being depreciated	21,443,688	23,633,506	28,931	45,048,263
Accumulated depreciation				
Buildings and improvements	(6,142,238)	(794,808)	-	(6,937,046)
Infrastructure	(3,739,245)	(276,370)	-	(4,015,615)
Machinery and equipment	<u>(454,264)</u>	<u>(46,203)</u>	<u>28,931</u>	<u>(471,536)</u>
Total accumulated depreciation	<u>(10,335,747)</u>	<u>(1,117,381)</u>	<u>28,931</u>	<u>(11,424,197)</u>
Total capital assets being depreciated, net	<u>11,107,941</u>	<u>22,516,125</u>	<u>-</u>	<u>33,624,066</u>
Business-type activities capital assets, net	<u>\$29,940,865</u>	<u>\$25,569,694</u>	<u>\$21,839,942</u>	<u>\$33,670,617</u>

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE E - CAPITAL ASSETS AND DEPRECIATION (continued)

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

Governmental activities	
General government	\$ 19,930
Community development	3,138
Public works	325,429
Recreation and Parks	249,390
Total depreciation expense – governmental activities	<u>\$ 597,887</u>
Business-type activities	
Water	\$ 167,990
Wastewater	949,391
Total depreciation expense – business-type activities	<u>\$1,117,381</u>

NOTE F - LONG-TERM LIABILITIES

During the year ended June 30, 2018, the following changes occurred in long-term liabilities reported for governmental and business-type activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Mortgage loan	\$ 1,119,621	\$ -	\$ (87,309)	\$ 1,032,312	\$ 73,583
General obligation debt	617,902	-	(432,786)	185,116	17,435
Health reimbursement obligations	6,085	5,260	-	11,345	11,345
Compensated absences	32,970	6,364	-	39,334	39,334
	<u>\$ 1,776,578</u>	<u>\$ 11,624</u>	<u>\$ (520,095)</u>	<u>\$ 1,268,107</u>	<u>\$ 141,697</u>
Business-Type Activities					
State loans	\$ 7,601,327	\$ -	\$ (416,197)	\$ 7,185,130	\$ 320,538
Customer deposits	22,077	2,862	(1,758)	23,181	-
Health reimbursement obligations	29,423	3,274	-	32,697	32,697
Compensated absences	14,749	-	(2,401)	12,348	12,348
	<u>\$ 7,667,576</u>	<u>\$ 6,136</u>	<u>\$ (420,356)</u>	<u>\$ 7,253,356</u>	<u>\$ 365,583</u>

Long-term debt amounts are comprised of the following as of June 30, 2018:

Description	Collateral	Due	Rate	Principal
Governmental activities				
Mortgage loan	Secured by real property	10/01/2025	3.5%	\$ 1,032,312
Note payable	Secured by full faith and credit of taxing power	07/01/2027	3.75%	185,116
				<u>\$ 1,217,428</u>
Business-type activities				
Maryland Water Quality Financing Administration 2015	Secured by state-shared revenue and full faith and credit of taxing power	02/01/2037	1.8%	<u>\$ 7,185,130</u>

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE F - LONG-TERM LIABILITIES (continued)

Annual debt service requirements to maturity for outstanding debt are as follows:

Year ending June 30	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2019	91,018	41,602	320,538	129,332
2020	94,300	38,320	326,308	123,563
2021	97,701	34,919	332,181	117,689
2022	101,225	31,396	338,161	111,710
2023	104,875	27,745	344,248	105,623
2024-2028	728,309	49,936	1,816,445	432,907
2029-2033	-	-	1,985,918	263,434
2034-2038	-	-	1,721,331	78,151
Total	<u>\$1,217,428</u>	<u>\$223,918</u>	<u>\$7,185,130</u>	<u>\$1,362,409</u>

NOTE G - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables, which are for temporary balances between funds where cash is pooled, consisted of the following at June 30, 2018:

	Interfund Receivables	Interfund Payables
General fund	\$ 31,812	\$ 838,540
Capital projects fund	-	11,132
Special revenue fund	-	20,680
Enterprise fund	<u>838,540</u>	<u>-</u>
	<u>\$ 870,352</u>	<u>\$ 870,352</u>

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE H –DEFERRED INFLOWS OF RESOURCES

At year end, the Town reported \$16,724 as a deferred inflow of resources. Deferred inflows are not to be confused with liabilities but represent acquisition of net position by the Town that is applicable to a future reporting period. At 6/30/18, the detail is:

Deferred property tax revenue	\$ 4,307
Deferred accommodation tax revenue	6,563
Deferred interest income	<u>5,854</u>
	<u>\$ 16,724</u>

NOTE I - FUND BALANCE

The Commissioners of Leonardtown complies with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which sets forth guidance on classifying and reporting fund balances for governmental funds. The following categories are reported in the general fund.

Nonspendable fund balance of \$1,728 represents amounts prepaid in FY18 that cover services that will be provided in FY19.

Restricted fund balance of \$67,396 must be used for road maintenance projects.

Assigned fund balance of \$356,999 is comprised of the following:

FY19 appropriation of fund balance	\$ 117,460
Balance of Floating dock FY18	87,700
Balance of elevator/sprinkler project	24,696
Balance of Town Hall 2 nd floor	33,570
Parking fees-in-lieu	52,800
HRA liabilities	11,345
War memorials maintenance	6,468
Encumbrances	<u>22,960</u>
	<u>\$ 356,999</u>

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE J - DEFICIT FUND EQUITY

The special revenue fund had a deficit fund balance of \$20,680 as of June 30, 2018. This special revenue fund accounts for activity related to the Chesapeake Bay Critical Area Grant received annually from The State of Maryland. The deficit represents the matching town appropriations not transferred from the general fund for the last several years. The Town plans to transfer funds from the general fund and close the fund when this grant is no longer available.

NOTE K -DEFERRED COMPENSATION PLAN

The Town has a deferred compensation plan available to all Town employees which is established in accordance with the Internal Revenue Code section 457. A deferred compensation plan offers employees an opportunity to defer a portion of their wages, along with the related federal and state income tax, until future years. For eligible employees, the Town contributes an amount equal to 5% of an employee's salary. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by the ICMA Retirement Corporation. The Town's only responsibility is to withhold the amounts from employees' payroll and forward those amounts and the Town's contribution to the plan administrator. Total expense incurred by the Town was \$41,179, and total employee contributions were \$54,404 for the year ended June 30, 2018.

The plan administrator has the responsibility for investing the deferred monies, maintaining detailed accounting records for both the individual employee and the Town, and disbursing funds to plan participants. Generally, the plan assets, including all income earned and rights purchased, are the exclusive property of the participants and are not assets of the Town. The only exception to this occurs when employees do not complete one year of service with the Town. In those cases, all Town contributions, including income earnings, are returned to the Town directly from the plan administrator.

NOTE L - OTHER POSTEMPLOYMENT BENEFITS

All full time Town employees are eligible for health insurance coverage through the Town's small group plan. The Town is responsible for paying 80% of the plan premium for each employee. Effective June 1, 2018, the Town renewed its single-employer health insurance and Health Reimbursement Account (HRA) plan. A HRA is an IRS approved, employer funded defined contribution plan account that can be used to pay for qualified medical expenses for the employee or his/her dependents.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE L - OTHER POSTEMPLOYMENT BENEFITS (continued)

As part of the annual budget approval process, the Town Council sets the annual contribution to each eligible employee's HRA account. The medical plan for individual coverage has a \$1,500 annual deductible; all other plans have a \$3,000 annual deductible. For FY18, the town contribution to each HRA account was approved at \$1,500 per participating employee. There are seven active employees and two inactive employees covered by the plan. The Town's contribution is available to each employee on the first day of the plan year. Unspent funds accumulate for each employee without expiration. Employees separating from service are allowed to access their HRA accounts and continue to make reimbursement claims for qualified medical expenses. The total contribution to employee accounts was \$13,500 for the year ended June 30, 2018. All health reimbursement contributions are accrued when incurred in the government wide, proprietary fund and budgetary basis financial statements. Governmental fund financial statements report these expenses as claims are made and unspent health reimbursement balances fall in the *assigned* fund balance category. Claims totaling \$4,966 were reimbursed before June 30, 2018. The remainder carries over to future years and is recorded as a liability in the government wide statement of net position. The total HRA plan liability at 6/30/18 is \$44,042.

The third party plan administrator, Further, has the responsibility for managing employee health reimbursement accounts, ensuring claims are valid and in accordance with Internal Revenue Code Section 213(d) and reimbursing employees when claims are made.

NOTE M - METCOMM AGREEMENT

The Town has entered into an agreement with St. Mary's County Metropolitan Commission whereby certain areas outside the Town's jurisdiction receive sewer service from Leonardtown rather than from the County. In exchange, the Metropolitan Commission (Metcomm) is billed its pro-rata share of operating, debt service and capital costs. In the current year, Leonardtown earned \$126,360 of operational reimbursement, \$32,731 of capital reimbursement and \$122,830 of debt service reimbursement based on the aforementioned agreement. As the Town makes debt service payments on the Maryland Water Quality Financing Loan for the ENR project, Metcomm will be billed its proportionate share of the debt service. Of the \$7,500,000 approved loan amount, Metcomm's estimated share of the loan is \$1,705,501 or almost 23%.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE N - 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 related disasters. The Town is a member of the Local Government Insurance Trust sponsored by the Maryland Municipal League (MML), and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability, and property coverage. The Town utilizes LGIT for its liability coverages. Commercial policies for property, flood, and employee bond coverages are purchased from private insurance companies.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The trust is owned by the participating counties, cities, and towns and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of annual premiums. Settled claims, if any, resulting from these risks have not exceeded commercial insurance coverage for the current year or the three prior years.

NOTE O - CONDUIT DEBT

On February 13, 2017, The Commissioners of Leonardtown approved Resolution 1-17 authorizing the Town, as a conduit borrower, to issue and sell economic development revenue bonds in an amount not to exceed \$24,000,000 and to loan the proceeds to St. Mary's Ryken Inc. These bonds were issued pursuant to the provisions of the Maryland Economic Development Revenue Bond Act and are to be used by St. Mary's Ryken to refund a previously outstanding bond and finance additional improvements to its high school campus. These bonds are limited obligations of the Town and are not considered debts against the general credit or taxing powers of the Town. At June 30, 2018, the outstanding principal balance was \$7,469,349.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE P - COMMITMENTS AND CONTINGENCIES

On May 11, 2015 the Town Council awarded the construction contract for the ENR project to MEB General Contractors, Inc. in the amount of \$16,896,000. Five change orders have been approved bringing the new contract amount to \$17,078,081. The balance remaining on this contract at June 30, 2018 is \$545,152.

On November 9, 2015 the Town Council approved Task Order #10 with GHD to provide construction engineering services during the construction phase of the ENR project. The amount of this task order is \$1,135,592. The balance remaining on this task order at June 30, 2018 is \$141,853 and primarily relates to the development of a computerized operation and maintenance manual and operational training left to complete.

On November 9, 2015 the Town Council approved Task Order #14 with GHD to provide design modifications needed to do an expansion to the wastewater treatment plant. The amount of this task order is \$42,070. The balance remaining on this task order at June 30, 2018 is \$18,932.

On December 12, 2016 the Town Council approved Task Order #16 with GHD to provide engineering services to prepare a Water Supply Capacity Management Plan as required by the Maryland Department of the Environment. The amount of this task order is \$59,700. The balance remaining on this task order at June 30, 2018 is \$31,641.

On February 13, 2017 the Town Council approved Task Order #17 with GHD to provide design services for a pier and boat slips at the Wharf Park. The amount of this task order is \$24,860. The balance remaining on this task order at June 30, 2018 is \$13,673.

In September of 2017, the Town received notification that it was awarded a \$200,000 Community Parks and Playground Grant from the Maryland Department of Natural Resources. This grant will be passed through to St. Mary's County Recreation and Parks as matching funds to replace the Wieck playground at Robert Miedzinski Park. None of this grant funding was expended prior to June 30, 2018.

On September 11, 2017 the Town Council approved a contract with W.M. Davis Inc. in the amount of \$101,650 to construct the elevator hoistway for Town Hall. The balance remaining on this task order at June 30, 2018 is \$12,482.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE P - COMMITMENTS AND CONTINGENCIES (continued)

On December 11, 2017 the Town Council approved a contract with W.M. Davis Inc. in the amount of \$91,000 to install a fire sprinkler system in Town Hall. None of this work was performed prior to June 30, 2018, so the entire contract balance remains outstanding at year end.

On January 8, 2018, the Town approved a Memorandum of Understanding with the Maryland State Highway Administration which governs the cost share of utility work required in advance of the Route 5 widening project taking place between the entrance road of St. Mary's Hospital and Clark's Rest Road. The pre-bid estimate for the Town's share of this work is \$467,818. Since the Town's share of utility work relates to moving a large water main, funding for this project will come from reserves in the water department.

On April 11, 2018, the Town Council approved additional construction tasks necessary to complete the renovation of the second floor of Town Hall. W.M. Davis Inc. was the successful bidder for the elevator hoistway, fire sprinkler install and painting contracts, so these additional tasks were awarded to W.M. Davis Inc. in order that they may be completed simultaneously. The price for the additional tasks was \$71,350. The balance remaining on these tasks at June 30, 2018 is \$33,570.

On April 11, 2018, the Town Council approved a contract with California Signs in the amount of \$5,925 to replace three Leonardtown welcome signs. None of this work was performed prior to June 30, 2018, so the entire contract balance remains outstanding at year end.

On May 14, 2018, the Town Council approved a contract with W.M. Davis in the amount of \$6,850 to paint the second floor of Town Hall. None of this work was performed prior to June 30, 2018, so the entire contract balance remains outstanding at year end.

On June 18, 2018, the Town Council approved a contract with Parran's Flooring Center in the amount of \$10,087 to install flooring on the second floor of Town Hall. None of this work was performed prior to June 30, 2018, so the entire contract balance remains outstanding at year end.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE P - COMMITMENTS AND CONTINGENCIES (continued)

Leonardtown Recreation, Inc. (LRI) is an inactive component unit of the Town. LRI was organized exclusively for non-profit and public purposes. The mission of the corporation is to relieve the government in providing and promoting recreational facilities. As part of that mission, LRI executed contracts with various contractors relating to the design, engineering, and construction of a golf course and conference center on the public portion of what is currently called the Tudor Hall Project. As of June 30, 2018 services valued at approximately \$1,600,000 were rendered under these contracts. The contracts stipulate that LRI will have no obligation to pay any amounts unless financing (bonds, grants, or loans) is obtained to proceed with the project. As of the date of these financial statements, financing has not been received.

The Town receives financial assistance from the State of Maryland in the form of grants. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a part of disallowed expenditures.

NOTE Q – TAX ABATEMENT

On February 13, 2017, the Town Council approved an agreement with TSG Leonardtown LLC (TSG) which sets out certain financial commitments from the Town and certain infrastructure improvements to be completed by TSG. Using its legislative powers as granted in Sections 201 and 501(25) of the Leonardtown Charter, this agreement stipulates that Leonardtown real property taxes will be abated in full each year until the total abatement reaches \$125,000. The first property tax abatement occurred in FY2018 in the amount of \$489.

TSG is required to install a public road and sidewalk which will provide vehicular and pedestrian access from the property to Fenwick Street. The agreement stipulated an additional \$125,000 cash contribution from the Town to be used by TSG to bury the sewer interceptor where the road will be constructed. This payment was made in FY18.

THE COMMISSIONERS OF LEONARDTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE R - SUBSEQUENT EVENTS

Subsequent events and transactions were evaluated for potential recognition in the financial statements through October 31, 2018 which is the date the financial statements were available to be issued.

On July 9, 2018, the Town Council awarded a contract to Mahan Rykiel Associates, Inc. to provide consulting services required to update the Leonardtown Downtown Plan. This contract value is not to exceed \$33,000.

The two office condos owned by the Town at 41660 Courthouse Drive have remained vacant since Town offices moved in 2016 to the current location on Washington Street. On August 13, 2018, the Town Council approved a lease agreement with Bank of America for part of Unit 301. This lease term is for one year with 2 one year options. The monthly lease income for the first year is \$1,000. Extension years, if exercised, will escalate annually by 3%.

On October 9 2018, the Town Council awarded a contract to Hugh C. Gardiner Inc. in the amount of \$10,999 for a utility vehicle.

SUPPLEMENTAL INFORMATION

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
TAXES			
Local property			
Real property	\$ 595,000	\$ 587,437	\$ (7,563)
Public utilities	18,000	18,131	131
Penalties and interest	2,500	2,288	(212)
Less: discount allowed	<u>(2,500)</u>	<u>(2,476)</u>	<u>24</u>
Total property taxes	613,000	605,380	(7,620)
INCOME TAXES	625,000	526,411	(98,589)
OTHER LOCAL TAXES			
Admissions and amusement	2,000	904	(1,096)
TAXES – STATE SHARED			
Highway users	<u>122,954</u>	<u>123,371</u>	<u>417</u>
Total taxes	1,362,954	1,256,066	(106,888)
LICENSES AND PERMITS			
Beer, wine and liquor	12,000	12,179	179
Traders	15,000	13,517	(1,483)
CATV franchise	30,000	27,784	(2,216)
Building, occupancy and sign permits	<u>17,850</u>	<u>30,145</u>	<u>12,295</u>
Total licenses and permits	74,850	83,625	8,775
INTERGOVERNMENTAL			
County tax rebate	44,916	44,916	-
Accommodation tax	18,000	6,563	(11,437)
Law enforcement grant	<u>12,500</u>	<u>11,958</u>	<u>(542)</u>
Total intergovernmental	75,416	63,437	(11,979)

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
For the Year Ended June 30, 2018
(continued)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
CHARGES FOR SERVICES			
Event fees	-	2,474	2,474
Zoning and subdivision fees	<u>1,500</u>	<u>1,750</u>	<u>250</u>
Total charges for services	1,500	4,224	2,724
MISCELLANEOUS REVENUE			
Grants for events	3,100	3,100	-
Other grants	-	5,850	5,850
Interest	10,000	15,505	5,505
Miscellaneous	<u>2,500</u>	<u>8,926</u>	<u>6,426</u>
Total miscellaneous revenue	<u>15,600</u>	<u>33,381</u>	<u>17,781</u>
Total revenue	1,530,320	1,440,733	(89,587)
OTHER FINANCING SOURCES			
Appropriation of prior year fund balance	<u>848,080</u>	<u>690,702</u>	<u>(157,378)</u>
Total other financing sources	<u>848,080</u>	<u>690,702</u>	<u>(157,378)</u>
Total revenue and other financing sources	<u>\$ 2,378,400</u>	<u>\$ 2,131,435</u>	<u>\$(246,965)</u>

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT			
Salaries	\$ 203,325	\$ 194,952	\$ 8,373
Payroll taxes and benefits	40,808	41,604	(796)
Accounting services	23,100	23,800	(700)
Legal counsel	10,000	8,121	1,879
Other professional services	32,000	28,195	3,805
Election expenses	350	550	(200)
Occupancy expense	2,500	5,000	(2,500)
Insurance and bond	18,600	19,579	(979)
Building maintenance	10,000	6,204	3,796
Office supplies	12,540	11,437	1,103
Postage	6,500	4,623	1,877
Equipment maintenance	3,000	1,645	1,355
Utilities	16,500	19,971	(3,471)
Travel, meetings and training	15,930	12,094	3,836
Dues and memberships	5,000	4,831	169
Public notices	750	1,382	(632)
Hospitality	6,500	2,956	3,544
Lease payments	876	876	-
Other operating expenses	1,500	1,429	71
Payments to other agencies	750	750	-
Debt service	575,283	572,234	3,049
Capital outlay	<u>50,050</u>	<u>36,543</u>	<u>13,507</u>
Total general government	1,035,862	998,776	37,086

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
For the Year Ended June 30, 2018
(continued)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
COMMUNITY DEVELOPMENT			
Salaries	95,061	89,350	5,711
Payroll taxes and benefits	28,945	25,840	3,105
Professional services	3,415	-	3,415
Arts and Entertainment District	3,236	3,888	(652)
Beach party	5,600	4,857	743
Tree lighting	4,100	3,921	179
Veteran's Day parade	3,900	3,882	18
Concerts on the square	2,050	1,760	290
Earth Day	2,875	2,475	400
Boat Races	1,500	1,500	-
Public relations/promotions	2,850	2,660	190
Other operating expenses	41,174	20,766	20,408
Capital outlay	<u>28,544</u>	<u>37,086</u>	<u>(8,542)</u>
Total community development	223,250	197,985	25,265
PLANNING AND ZONING			
Salaries	87,672	84,275	3,397
Payroll taxes and benefits	17,201	16,872	329
Legal counsel	5,000	-	5,000
Office supplies	750	1,453	(703)
Other operating expenses	<u>1,000</u>	<u>139</u>	<u>861</u>
Total planning and zoning	111,623	102,739	8,884
PUBLIC SAFETY			
Salaries	11,138	11,093	45
Payroll taxes and benefits	3,416	3,397	19
Law enforcement	59,577	52,930	6,647
Fire department grant	1,000	1,000	-
Rescue squad grant	1,000	1,000	-
Other operating expenses	500	-	500
Capital outlay	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total public safety	79,631	69,420	10,211

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL FUND
For the Year Ended June 30, 2018
(continued)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
PUBLIC WORKS			
Salaries	35,734	37,626	(1,892)
Payroll taxes and benefits	10,489	11,046	(557)
Professional services	1,000	-	1,000
Streets and street maintenance	120,683	104,190	16,493
Sidewalk/storm drain maintenance	25,000	22,212	2,788
Snow and ice removal	40,000	33,395	6,605
Street lighting	47,500	40,050	7,450
Street sweeping	37,122	35,694	1,428
Street signs and maintenance	2,500	2,332	168
Buildings and grounds	66,841	66,638	203
Other operating expenses	14,000	7,433	6,567
Capital outlay	<u>212,709</u>	<u>212,078</u>	<u>631</u>
Total public works	613,578	572,694	40,884
RECREATION AND PARKS			
Salaries	23,193	23,167	26
Payroll taxes and benefits	5,584	5,532	52
Facility maintenance	15,000	19,838	(4,838)
Utilities	6,000	5,269	731
Grounds maintenance	55,632	70,875	(15,243)
Other operating expenses	<u>3,000</u>	<u>491</u>	<u>2,509</u>
Total recreation and parks	<u>108,409</u>	<u>125,172</u>	<u>(16,763)</u>
Total expenditures	<u>\$ 2,172,353</u>	<u>\$ 2,066,786</u>	<u>\$105,567</u>

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF OPERATING REVENUES AND EXPENSES BY SEGMENT
PROPRIETARY FUND
For the Year Ended June 30, 2018

	<u>Wastewater Treatment Plant</u>	<u>Collection System</u>	<u>Water System</u>	<u>Refuse Collection</u>	<u>Total</u>
Operating Revenues					
Water service charges	\$ -	\$ -	\$ 486,741	\$ -	\$ 486,741
Sewer service charges	931,354	-	-	-	931,354
Refuse collection charges	-	-	-	665,799	665,799
Metcomm service fees	126,360	-	-	-	126,360
Late charges/fees collected	<u>6,502</u>	<u>-</u>	<u>1,572</u>	<u>2,163</u>	<u>10,237</u>
Total operating revenues	1,064,216	-	488,313	667,962	2,220,491
Operating Expenses					
Salaries	285,236	56,109	118,697	25,243	485,285
Payroll taxes and benefits	59,487	13,083	25,873	3,680	102,123
Engineering and consultants	4,620	2,056	30,208	-	36,884
Insurance	10,969	7,992	5,023	-	23,984
Facility maintenance	37,774	5,493	4,484	-	47,751
Line maintenance	-	25,330	72,219	-	97,549
Utilities	115,756	7,427	47,467	-	170,650
Materials and supplies	54,730	-	9,722	-	64,452
Lab analysis	23,847	-	807	-	24,654
Sludge management	28,866	-	-	-	28,866
Refuse collection contract	-	-	-	620,449	620,449
Other operating expenses	<u>28,688</u>	<u>9,267</u>	<u>17,002</u>	<u>4,518</u>	<u>59,475</u>
Total operating expenses	<u>649,973</u>	<u>126,757</u>	<u>331,502</u>	<u>653,890</u>	<u>1,762,122</u>
Operating income (loss) before depreciation	414,243	(126,757)	156,811	14,072	458,369
Depreciation	<u>801,141</u>	<u>148,250</u>	<u>167,990</u>	<u>-</u>	<u>1,117,381</u>
Operating income (loss)	<u>\$ (386,898)</u>	<u>\$ (275,007)</u>	<u>\$ (11,179)</u>	<u>\$ 14,072</u>	<u>\$ (659,012)</u>

THE COMMISSIONERS OF LEONARDTOWN
SCHEDULE OF REVENUES, EXPENSES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (BUDGETARY BASIS) – PROPRIETARY FUND
For the Year Ended June 30, 2018

	Wastewater Treatment Plant			Collection System			Water System			Refuse Collection		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue												
Service charges	\$ 915,000	\$ 931,354	\$ 16,354	\$ -	\$ -	\$ -	\$ 510,000	\$ 483,178	\$ (26,822)	\$ 662,000	\$ 664,716	\$ 2,716
Metcomm fees	237,972	269,734	31,762	-	-	-	-	-	-	-	-	-
Capacity allocation charges	-	69,003	69,003	-	-	-	-	62,730	62,730	-	-	-
Impact fees	-	533,000	533,000	-	-	-	-	73,800	73,800	-	-	-
Miscellaneous income	<u>13,950</u>	<u>71,832</u>	<u>57,882</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,350</u>	<u>42,638</u>	<u>35,288</u>	<u>1,700</u>	<u>2,163</u>	<u>463</u>
Total revenue	1,166,922	1,874,923	708,001	-	-	-	517,350	662,346	144,996	663,700	666,879	3,179
Expenses												
Salaries	280,751	289,207	(8,456)	53,550	55,607	(2,057)	109,925	116,227	(6,302)	25,258	25,243	15
Payroll taxes and benefits	59,533	59,487	46	12,160	13,082	(922)	25,302	25,873	(571)	3,933	3,680	253
Engineering/consultants	2,500	4,620	(2,120)	2,000	2,056	(56)	2,000	30,208	(28,208)	-	-	-
Insurance	10,750	10,969	(219)	8,000	7,992	8	5,000	5,023	(23)	-	-	-
Facility maintenance	39,275	37,775	1,500	15,345	5,493	9,852	11,056	4,484	6,572	-	-	-
Line maintenance	-	-	-	39,783	25,330	14,453	110,247	72,219	38,028	-	-	-
Utilities	95,000	111,110	(16,110)	10,000	7,427	2,573	55,000	47,467	7,533	-	-	-
Materials and supplies	54,523	54,730	(207)	1,344	-	1,344	11,126	9,722	1,404	-	-	-
Laboratory analysis	15,518	23,847	(8,329)	-	-	-	2,438	807	1,631	-	-	-
Sludge management	46,398	28,866	17,532	-	-	-	-	-	-	-	-	-
Debt service	593,919	593,919	-	-	-	-	-	-	-	-	-	-
Capital outlay	9,800	34,561	(24,761)	30,182	22,552	7,630	5,500	52,253	(46,753)	-	-	-
Contingency/reserve fund	116,360	-	116,360	15,354	-	15,354	159,106	-	159,106	-	-	-
Refuse collection contract	-	-	-	-	-	-	-	-	-	628,509	620,449	8,060
Other operating expenses	<u>19,437</u>	<u>25,848</u>	<u>(6,411)</u>	<u>11,355</u>	<u>9,267</u>	<u>2,088</u>	<u>20,650</u>	<u>17,002</u>	<u>3,648</u>	<u>6,000</u>	<u>4,517</u>	<u>1,483</u>
Total expenses	1,343,764	1,274,939	68,825	199,073	148,806	50,267	517,350	381,285	136,065	663,700	653,889	9,811
Excess (deficiency) of revenue over expenses	(176,842)	599,984	776,826	(199,073)	(148,806)	50,267	-	281,061	281,061	-	12,990	12,990
Other financing sources(uses)												
Appropriation of retained earnings	375,915	375,915	-	-	-	-	-	239,539	239,539	-	-	-
Transfer to other funds	<u>-</u>	<u>(13,463)</u>	<u>(13,463)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(366,560)</u>	<u>(366,560)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	375,915	362,452	(13,463)	-	-	-	-	(127,021)	(127,021)	-	-	-
Excess (deficiency) of revenue and other financing sources over expenses and other financing uses	<u>\$ 199,073</u>	<u>\$ 962,436</u>	<u>\$ 763,363</u>	<u>\$(199,073)</u>	<u>\$(148,806)</u>	<u>\$ 50,267</u>	<u>\$ -</u>	<u>\$ 154,040</u>	<u>\$ 154,040</u>	<u>\$ -</u>	<u>\$ 12,990</u>	<u>\$ 12,990</u>

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

To the Commissioners of Leonardtown
Leonardtown, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Commissioners of Leonardtown as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise The Commissioners of Leonardtown's basic financial statements and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Commissioners of Leonardtown's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Commissioners of Leonardtown's internal control. Accordingly, we do not express an opinion on the effectiveness of The Commissioners of Leonardtown'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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Commissioners of Leonardtown'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

accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, on our consideration of The Commissioners of Leonardtown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Commissioners of Leonardtown's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Commissioners of Leonardtown's internal control over financial reporting and compliance.

Murray, Wamsley & Schrader, LLC

Lexington Park, Maryland
October 31, 2018