

TOWN OF HAMPSTEAD
CARROLL COUNTY, MARYLAND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

TOWN OF HAMPSTEAD
YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Fund	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Fund to the Statement of Activities	15
Statement of Net Position – Proprietary Fund	16
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	17
Statement of Cash Flows – Proprietary Fund	18-19
Notes to Financial Statements	20 - 42
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	44
Schedule of Town's Proportionate Share of the Net Pension Liability	45
Schedule of Town's Contributions	46



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Town Council and the Town Manager
Town of Hampstead
Hampstead, Maryland

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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



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Town of Hampstead
Page 2

Adoption of Governmental Accounting Standard Board Pronouncements

As discussed in Note 1 to the financial statements, in 2018 the Town adopted the provisions of Governmental Accounting Standard Board's Statement No. 83, "*Certain Asset Retirement Obligations*" and GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*" Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of Town's proportionate share of the net pension liability, and the schedule of the Town's contributions on pages 3-9, 44 through 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
October 22, 2019

Town of Hampstead Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Town of Hampstead provides an overview of the Town's financial activities for the year ended June 30, 2019. Please read it in conjunction with the transmittal letter and the Town's financial statements.

Financial Highlights

General Government:

- Municipal property tax rates and business personal property tax rates remained unchanged in fiscal year 2019. Residential and commercial development within the Town could result in increased property and business property tax in fiscal year 2020.
- In fiscal year 2018 the State Highway Administration of Maryland began their revitalization of the Town's Main Street. This project, also known as Streetscape, is slated for completion in the Fall of 2020. The Town issued a bond in fiscal year 2019 in the amount of \$651,300 for the purchase of new streetlights. As of June 30, 2019 the Town has drawn \$306,936 on the bond. This was the largest capital expense in general government in 2019.
- The second largest capital expense in general government for 2019 was road paving in the amount of \$206,921. The Town expects to do further paving in 2020 utilizing Highway User Revenues from the State of Maryland as well as Town funds.
- The Town installed a basketball court at Panther Park in fiscal year 2019 utilizing grant funds of \$48,203 from the State of Maryland's Department of Natural Resources. This project was fully funded through their Community Parks and Playgrounds (CP&P) Program.

Water:

- Water rates increased eight percent in 2019. Water rates will remain unchanged in fiscal year 2020.
- The cleaning and repainting of the Town's water tower located on Panther Drive was performed during fiscal year 2019. The \$147,975 project was the largest capital expense in the water fund in 2019.
- Pump House #17, which combines the output of four wells, continues to be tested in order to comply with Maryland Department of Environment standards. It is anticipated the pump house will be placed in service during fiscal year 2020.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's most significant funds and individual parts.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Town's finances is, "Is the Town as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities and all deferred outflows and inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the Town's net position. You can think of the Town's *net* position (the difference between assets plus deferred outflows, and liabilities plus deferred inflows) as one way to measure the Town's financial health or position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the property tax base, and the condition of the roads and water system to assess the overall health of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town's basic services are reported here, including the police, general administration, public works, and parks. Taxes, fees, fines, and state and federal grants finance most of these activities.
- Business-type activities – The Town's water system is reported here, and fees are charged to customers to cover the cost of the services provided.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. The Town's two kinds of funds, governmental and proprietary, use different accounting approaches.

- Government funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or

differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town’s enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash-flows.

The Town as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town’s taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Rental Housing Licenses, Public Works Agreement Fees, Certain Fees & Licenses, Penalties
Public Safety	Federal Grants, State Grants, Fines, Impact Fees, Report Fees
Public Works	Highway User Revenues, County Overlapping Services, Grading Permit Fees
Recreation & Culture	State Grants, Impact Fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.

Governmental-Wide Financial Information

The following is selected information as of June 30, 2019 and for the previous year ended provided for comparison purposes.

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 3,464,475	\$ (249,702)	\$ 3,214,773	\$ 3,264,590	\$ (514,695)	\$ 2,749,895
Noncurrent assets	5,690,165	8,468,953	14,159,118	5,420,350	8,486,552	13,906,902
Total assets	9,154,640	8,219,251	17,373,891	8,684,940	7,971,857	16,656,797
Deferred outflows of resources	262,171	-	262,171	364,167	-	364,167
Total assets and deferred outflows of resources	\$ 9,416,811	\$ 8,219,251	\$ 17,636,062	\$ 9,049,107	\$ 7,971,857	\$ 17,020,964
Current liabilities	\$ 247,461	\$ 143,987	\$ 391,448	\$ 176,324	\$ 123,407	\$ 299,731
Long-term liabilities	1,833,147	2,893,160	4,726,307	1,662,503	2,907,813	4,570,316
Total liabilities	2,080,608	3,037,147	5,117,755	1,838,827	3,031,220	4,870,047
Deferred inflows of resources	163,946	-	163,946	79,921	-	79,921
Net position						
Net investment in capital assets	4,852,777	5,478,683	10,331,460	4,886,990	5,495,378	10,382,368
Unrestricted	2,319,480	(296,579)	2,022,901	2,243,369	(554,741)	1,688,628
Total net position	7,172,257	5,182,104	12,354,361	7,130,359	4,940,637	12,070,996
Total liabilities, deferred inflows of resources and net position	\$ 9,416,811	\$ 8,219,251	\$ 17,636,062	\$ 9,049,107	\$ 7,971,857	\$ 17,020,964
Program revenues						
Charges for services	\$ 17,447	\$ 1,200,780	\$ 1,218,227	\$ 18,068	\$ 1,085,272	\$ 1,103,340
Grants and contributions	697,070	-	697,070	682,484	-	682,484
General revenues						
Income taxes	944,940	-	944,940	840,035	-	840,035
Property taxes	1,436,626	-	1,436,626	1,392,069	-	1,392,069
Other general revenues	232,206	194,115	426,321	158,827	182,600	341,427
Transfers	-	-	-	(310,409)	310,409	-
Total general revenues and transfers	2,613,772	194,115	2,807,887	2,080,522	493,009	2,573,531
Total revenues and transfers	3,328,289	1,394,895	4,723,184	2,781,074	1,578,281	4,359,355
Expenses						
General government	669,894	-	669,894	640,614	-	640,614
Public safety	1,086,019	-	1,086,019	1,103,851	-	1,103,851
Public works	1,361,626	-	1,361,626	1,315,354	-	1,315,354
Recreation and culture	155,548	-	155,548	163,017	-	163,017
Interest Expense	12,658	-	12,658	13,028	-	13,028
Loss on disposal of capital assets	646	314	960	-	-	-
Water Expense	-	1,153,114	1,153,114	-	1,119,834	1,119,834
Total expenses and transfers	3,286,391	1,153,428	4,439,819	3,235,864	1,119,834	4,355,698
Special Item - Doubtful Accounts Expense	-	-	-	343,613	-	343,613
Change in net position	41,898	241,467	283,365	(798,403)	458,447	(339,956)
Net position, beginning of year	7,130,359	4,940,637	12,070,996	7,928,762	4,482,190	12,410,952
Net position, end of year	\$ 7,172,257	\$ 5,182,104	\$ 12,354,361	\$ 7,130,359	\$ 4,940,637	\$ 12,070,996

Business-type Activities

Business-type activities consist of the water department. The water department shows net operating income partially as a result of impact fees being charged for future capital expense.

The Town's Funds

The following schedule presents a summary of general revenue and expenses for the fiscal year ended June 30, 2019 and the amount of increases and decreases in relation to the prior year.

	FY 2019 Amount	Percent of Total	Increase (Decrease) From FY 18	FY 2018 Amount
Revenues				
Taxes	\$2,414,405	64%	\$ 144,259	\$2,270,146
Intergovernmental	697,070	19%	14,587	682,483
Charges for services	17,447	0%	(621)	18,068
Fines, licences and permits	66,385	2%	2,840	63,545
Interest income	21,763	1%	9,919	11,844
Miscellaneous	111,219	3%	65,823	45,396
Debt Proceeds	306,936	8%	306,936	-
Capital lease proceeds	122,410	3%	50,250	72,160
TOTAL REVENUE	\$3,757,635	100%	\$ 593,993	\$3,163,642
Expenditures				
General government	\$ 662,288	18%	\$ 13,465	\$ 648,823
Public safety	924,304	26%	(22,480)	946,784
Public works	878,078	25%	(8,495)	886,573
Recreation and culture	123,864	3%	(8,822)	132,686
Capital Outlays	875,491	24%	481,203	394,288
Debt service	137,976	4%	(6,268)	144,244
Transfers	-	0%	(310,409)	310,409
TOTAL EXPENDITURES	\$3,602,001	100%	\$ 138,194	\$3,463,807

The increase in Taxes revenue is a result of new homes being built, as well as a slight increase in property assessments. The increase in Miscellaneous revenues is due to the Town selling multiple vehicles and heavy equipment. The Debt Proceeds are bond draws that were made as of June 30, 2019 for the \$651,300 Streetscape project. The increase in Capital Lease Proceeds includes two new equipment leases in FY 2019.

On the expenditures side, the decrease in Public Safety is a result of continued vacancies in the Police Department. The increase in Capital Outlays includes the Streetscape project, road paving and two new equipment leases. In FY 2018, the Town transferred cell tower lease revenue from the General Fund to the Water Fund. There were no transfers in FY 2019.

General Fund Budgetary Highlights

There were some budget revisions in fiscal year 2019. Refer to page 44 of this report for a detailed analysis of the original budget, final budget, and actual revenues and expenditures for the governmental funds. Capital expenditures are notably under budget due to the Town expending only \$306,936 of the \$651,300 Streetscape project costs.

Capital Asset and Debt Administration

Capital Assets

Major capital additions during 2019 included Streetscape street lighting, road paving, the purchase of new vehicles and equipment, and the reconditioning of the Panther Drive water tower.

The following table lists the Town's additions during the year.

General Fund		Business-Type Activities	
Backup Generator - Town Hall	\$ 9,300	Public Works Vehicles/Equipment	\$ 39,952
Police Vehicle	40,802	Public Works Dump Truck (Lease)	66,602
Security/Fire Alarm Upgrades - Police	47,201	Public Works Backhoe (Lease)	55,807
In-Car Cameras - Police	23,520	Water Meter Readers	23,501
Public Works Vehicles/Equipment	39,952	Panther Tower Reconditioning	147,975
Public Works Dump Truck (Lease)	66,602	Farm Woods Ln. Well Connection	608
Public Works Backhoe (Lease)	55,807	Water Meters	8,120
Road Paving	206,921		
Dam #505 - Engineering/Permitting	19,805		
Streetscape Street Lighting	317,378		
Basketball Court - Panther Park	48,203		
Subtotal	<u>\$ 875,491</u>		<u>\$ 342,565</u>
Disposals	<u>\$ (48,848)</u>		<u>\$(142,140)</u>
Change in Capital Assets	<u><u>\$ 826,643</u></u>		<u><u>\$ 200,425</u></u>

Debt

At year end, the Town had \$3,486,488 in outstanding notes as compared to \$3,387,696 last year. This amount consists of notes on the North Water Tower, Streetscape Street Lighting, Paving Improvements, and the Main Street Water Main Replacement. In 2018, the Town entered into a 7-year lease agreement in the amount of \$144,320 for the purchase of a front loader. At year end, the outstanding balance of the lease was \$118,351. In 2019, the Town entered into two 7-year lease agreements for the purchase of a Freightliner Dump Truck in the amount of \$133,204 and a Backhoe in the amount of \$111,615. At year end, the outstanding balances of these leases were \$118,040 and \$104,779 respectively. The only other continuing obligation of the Town is compensated absences and the net pension liability.

Economic Factors and Next Year's Budgets and Rates

General revenues are expected to be unstable as a result of reliance on the State for funding and increasing Federal and State regulations. Water expenses are expected to increase as a result of water resource development and increasing Federal and State regulations.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Manager at 1034 S. Carroll Street, Hampstead, Maryland 21074.

TOWN OF HAMPSTEAD
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 1,259,376	\$ -	\$ 1,259,376
Investments	1,486,458	-	1,486,458
Restricted Cash	28,892	-	28,892
Receivables			
Accounts	77,191	304,200	381,391
Internal Balances	565,633	(565,633)	-
Prepaid Expenses	46,925	11,731	58,656
Capital Assets Not Being Depreciated	930,123	72,525	1,002,648
Capital Assets Being Depreciated, Net of Depreciation	4,760,042	8,396,428	13,156,470
Total Assets	9,154,640	8,219,251	17,373,891
Deferred Outflows of Resources			
Pension	262,171	-	262,171
Total Deferred Outflows of Resources	262,171	-	262,171
Total Assets and Deferred Outflows of Resources	\$ 9,416,811	\$ 8,219,251	\$ 17,636,062
Liabilities			
Accounts Payable and Accrued Liabilities	\$ 77,365	\$ 14,405	\$ 91,770
Funds Held in Escrow	25,930	-	25,930
Unearned Revenue	2,962	-	2,962
Current Portions of Long Term Liabilities:			
Capital Lease Payable	25,340	25,340	50,680
Bonds and Notes Payable	115,864	104,242	220,106
Non-Current Portions of Long Term Liabilities:			
Compensated Absences	120,775	32,472	153,247
Capital Lease Payable	145,245	145,245	290,490
Bonds and Notes Payable	550,939	2,715,443	3,266,382
Net Pension Liability	1,016,188	-	1,016,188
Total Liabilities	2,080,608	3,037,147	5,117,755
Deferred Inflows of Resources			
Pension	163,946	-	163,946
Total Deferred Inflows of Resources	163,946	-	163,946
Net Position			
Net Investment In Capital Assets	4,852,777	5,478,683	10,331,460
Unrestricted	2,319,480	(296,579)	2,022,901
Total Net Position	7,172,257	5,182,104	12,354,361
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 9,416,811	\$ 8,219,251	\$ 17,636,062

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

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

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 669,894	\$ 1,685.00	\$ -	\$ -	\$ (668,209)	\$ -	\$ (668,209)
Public Safety	1,086,019	5,813	98,684	-	(981,522)	-	(981,522)
Public Works	1,361,626	5,050	-	550,183	(806,393)	-	(806,393)
Recreation and Parks	155,548	4,899	-	48,203	(102,446)	-	(102,446)
Interest on Long-Term Debt	12,658	-	-	-	(12,658)	-	(12,658)
Total Governmental Activities	3,285,745	17,447	98,684	598,386	(2,571,228)	-	(2,571,228)
Business-type Activities:							
Water	1,153,114	1,200,780	-	-	-	47,666	47,666
Total Business-type Activities	1,153,114	1,200,780	-	-	-	47,666	47,666
Total Primary Government	\$ 4,438,859	\$ 1,218,227	\$ 98,684	\$ 598,386	(2,571,228)	47,666	(2,523,562)
General Revenues:							
Taxes:							
Income Taxes					944,940	-	944,940
Property Taxes					1,436,626	-	1,436,626
Other Taxes					32,839	-	32,839
Interest Income					21,763	-	21,763
Loss on Disposal of Capital Assets					(646)	(314)	(960)
Miscellaneous					177,604	194,115	371,719
Total General Revenues					2,613,126	193,801	2,806,927
Change in Net Position					41,898	241,467	283,365
Net Position - Beginning					7,130,359	4,940,637	12,070,996
Net Position - Ending					\$ 7,172,257	\$ 5,182,104	\$ 12,354,361

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

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

	General Fund
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,259,376
Investments	1,486,458
Accounts Receivable	77,191
Prepaid Expense	46,925
Due from Other Funds	565,633
Restricted Cash	28,892
Total Assets	\$ 3,464,475
<u>Liabilities</u>	
Accounts Payable and Accrued Liabilities	\$ 77,365
Funds Held in Escrow	25,930
Unearned Revenue	2,962
Total Liabilities	106,257
<u>Fund Balances</u>	
Nonspendable - prepaid for workers compensation insurance	46,925
Unassigned	3,311,293
Total Fund Balances	3,358,218
Total Liabilities and Fund Balances	\$ 3,464,475

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

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

Total fund balances for governmental funds \$ 3,358,218

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	930,123	
Land Improvements, net of (\$15,379,366) accumulated depreciation	3,185,835	
Facilities, net of (\$549,198) accumulated depreciation	1,048,276	
Equipment, net of (\$2,059,254) accumulated depreciation	<u>525,931</u>	
 Total capital assets		 5,690,165

Other non-current assets in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Notes Receivable		360,828
Less: Allowance for Doubtful accounts (See Note 10)		<u>(360,828)</u>

Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Balances at June 30, 2019 are:

Compensated Absences	(120,775)	
Capital Lease Payable	(170,585)	
Bonds and Notes Payable	(666,803)	
Deferred Outflows of Resources - Pensions	262,171	
Deferred Inflows of Resources - Pensions	(163,946)	
Net Pension Liability	<u>(1,016,188)</u>	
		<u>(1,876,126)</u>

Total net position of governmental activities \$ 7,172,257

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

	<u>General</u>
<u>Revenues</u>	
Taxes	\$ 2,414,405
Intergovernmental	697,070
Charges for Services	17,447
Fines, Licenses and Permits	66,385
Interest Income	21,763
Miscellaneous Income	111,219
	<hr/>
Total Revenues	3,328,289
	<hr/>
<u>Expenditures</u>	
Current:	
General Government	662,288
Public Safety	924,304
Public Works	878,078
Recreation and Parks	123,864
Debt Service:	
Principal	125,318
Interest	12,658
Capital Outlay	875,491
	<hr/>
Total Expenditures	3,602,001
	<hr/>
Deficiency of Revenues Under Expenditures	(273,712)
	<hr/>
<u>Other Financing Sources (Uses)</u>	
Debt Proceeds	306,936
Capital Lease Proceeds	122,410
Total Other Financing Sources (Uses)	429,346
	<hr/>
Net Change in Fund Balances	155,634
	<hr/>
Fund Balances - Beginning of year	3,202,584
	<hr/>
Fund Balances - End of year	\$ 3,358,218
	<hr/> <hr/>

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

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

Net change in fund balances - total governmental fund \$ 155,634

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$875,491) exceeded depreciation (\$605,030) and loss on disposal of capital assets (\$646) in the current period. 269,815

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

Debt issued:			
Debt Proceeds		(306,936)	
Capital Leases		(122,410)	
Repayments:			
Bonds and Notes Payable		105,074	
Capital Leases		20,244	
Net adjustment			(304,028)

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

Compensated Absences	(26,435)	
Deferred Inflows from Pensions	(84,025)	
Deferred Outflows from Pensions	(101,996)	
Pension Benefit	132,933	
		(79,523)

Total change in net position of governmental activities \$ 41,898

TOWN OF HAMPSTEAD
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	Proprietary Fund
	Water
ASSETS	
Current Assets:	
Accounts Receivable	\$ 304,200
Prepaid Expense	11,731
Total Current Assets	315,931
Noncurrent Assets	
Capital Assets Not Being Depreciated	72,525
Capital Assets Being Depreciated, Net of Depreciation	8,396,428
Total Noncurrent Assets	8,468,953
Total Assets	8,784,884
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	14,405
Due to Other Funds	565,633
Capital Lease Payable - Current Portion	25,340
Bonds and Notes Payable - Current Portion	104,242
Total Current Liabilities	709,620
Noncurrent Liabilities:	
Compensated Absences	32,472
Capital Lease Payable due in more than one year	145,245
Bonds and Notes Payable due in more than one year	2,715,443
Total Noncurrent Liabilities	2,893,160
Total Liabilities	3,602,780
NET POSITION	
Net Investment in Capital Assets	5,478,683
Unrestricted	(296,579)
Total Net Position	\$ 5,182,104

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

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

	Proprietary Fund
	Water
Operating Revenues	
Charges for Services	\$ 1,200,780
Miscellaneous	194,115
Total Operating Revenues	1,394,895
Operating Expenses	
Personnel services	395,933
Depreciation	359,850
Operations and Maintenance	277,737
Total Operating Expenses	1,033,520
Operating Income	361,375
Nonoperating Expenses	
Loss on disposal of capital assets	(314)
Interest Expense	(119,594)
Nonoperating Expenses	(119,908)
Changes In Net Position	241,467
Total Net Position - Beginning of Year	4,940,637
Total Net Position - End of Year	\$ 5,182,104

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

TOWN OF HAMPSTEAD
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Proprietary Fund
	Water
Cash Flows From Operating Activities	
Receipts from Customers	\$ 1,173,879
Receipts (Payments) from Interfund Transactions	(247,658)
Receipts from Other	194,115
Payments to:	
Employees for salaries, payroll taxes and benefits	(392,414)
Suppliers for Operations	(264,859)
	463,063
Cash Flows from Capital and Related Financing Activities	
Purchases and construction of capital assets	(220,155)
Principal paid on bonds, notes, and capital lease	(123,314)
Interest paid on bonds, notes, and capital lease	(119,594)
	(463,063)
Net Change in Cash and Cash Equivalents	-
Cash and Cash Equivalents, Beginning of Year	-
Cash and Cash Equivalents, End of Year	\$ -

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

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

	Proprietary Fund
	Water
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:	
Operating Income	\$ 361,375
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used In Operating Activities:	
Depreciation Expense	359,850
Change in Assets and Liabilities	
Prepaid Expense	9,566
Receivables - net of allowances	(26,901)
Accounts Payable and Accrued Liabilities	3,312
Due To/From Other Funds	(247,658)
Compensated Absences	3,519
	\$ 463,063
Noncash Capital and Related Financing Activities	
Proceeds from Capital Lease	\$ 122,410
Loss on Disposal of Capital Assets	\$ 314

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

TOWN OF HAMPSTEAD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The Town of Hampstead, Maryland (the "Town") was incorporated in 1888, pursuant to the authority of article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety, highway and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services. In addition, the Town owns and operates a water system.

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

A) Reporting Entity

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

The Town is financially accountable for:

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

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

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

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

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

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

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

B) Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for the governmental fund and the proprietary funds.

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

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

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

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

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

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

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

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

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

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

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

The Town reports the following major governmental fund:

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

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

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

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

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

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

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

The Town reports the following major proprietary fund:

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

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

1. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. The Town pools all individual cash balances. Income is distributed to the funds based on contributions to the pool.

2. Restricted Assets

Restricted assets represent cash balances held as escrow deposits and unearned revenue.

3. Investments

Investments are stated at fair value except for the Town's investments in an external investment pool, which are reported at amortized cost.

4. Capital Assets

Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital purchases with initial, individual costs that equal or exceed \$10,000 and estimated useful lives of over five years are recorded as capital assets. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

4. Capital Assets (Continued)

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 to 50
Improvements and Infrastructure	5 to 50
Equipment	2 to 20

5. Receivables and Payables

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

Account receivables in the proprietary fund and a note receivable in the governmental activities statement of net position are shown net of an allowance for uncollectible accounts. The Town's allowance for uncollectible accounts is based upon historical collection experience and a review of the status of current accounts receivable. As of June 30, 2019, the Town recorded an allowance for uncollectible accounts in the proprietary fund and governmental activities statement of net position in the amount of \$0 and \$360,828, respectively.

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

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

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

6. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure. A maximum of forty-five days of annual leave may be carried over to subsequent years. Upon termination, the employees will be paid the number of days accrued, not to exceed thirty days, in addition to any leave earned during the calendar year. Sick leave accrues to full-time, permanent employees to specified maximums and is not paid out upon termination or departure. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination. Compensated absences are reported in the government-wide and proprietary fund statement of net position as long-term liabilities.

The government-wide and proprietary fund statement of net position includes accrued compensated absences of \$120,775 and \$32,472, respectively, in the governmental and business-type activities at June 30, 2019.

7. Long-Term Obligations

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

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

8. Unearned Revenues

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

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

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

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

9. Net Position / Fund Balances

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

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

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

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

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

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

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

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

9. Net Position / Fund Balances (continued)

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

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

10. Interfund Transactions

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

11. Accounting Estimates

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

12. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category: deferred outflows related to pensions. Deferred outflows related to pensions are described further in Note 8. The components of deferred outflows of resources are amortized into pension expense for the pension plan over the remaining service life of participants, beginning the year in which the deferred amount occurs, except for the annual difference between the projected and actual earnings on investments which is amortized over a five-year closed period beginning the year in which the difference occurs.

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

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

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

12. Deferred Outflows / Inflows of Resources (continued)

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

13. Pensions

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

14. Adoption of Governmental Accounting Standards Board Statements

The Town adopted the provisions of Governmental Accounting Standard Board's Statement No. 83, "*Certain Asset Retirement Obligations*" and GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". The adoption of these statements had no effect on previously reported amounts other than additional disclosures in Note 6.

15. Pending Changes in Accounting Principles

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

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

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

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

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

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

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

15. Pending Changes in Accounting Principles (Continued)

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

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

E) Budgets and Budgetary Accounting

Budget Policy and Practice

The Mayor submits an annual budget to the Town Council of Hampstead in accordance with the Town's Charter and Maryland Statutes. The budgets for the general fund and proprietary fund are presented to the Town Council for review, and public hearings are held to address priorities and the allocation of resources. Town Council adopts the annual fiscal year budgets for operating funds.

Basis of Budgeting

The Town prepares the budgets in accordance with generally accepted accounting principles.

Level of Control

The Town maintains budgetary controls at the fund level.

Lapsing of Appropriations

Unexpended appropriations lapse at fiscal year-end.

Management Amendment Authority

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

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

NOTE 2: DEPOSIT AND INVESTMENT RISK

Statutes authorize the town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments, provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition in accordance with the State Statutes and the Town Charter, the Town may invest in: (1) U.S. Treasury Obligations, (2) U.S. Government Agency and U.S. Government-sponsored instrumentalities, (3) Repurchase agreements, (4) Collateralized certificates of deposit, (5) Banker's acceptances from domestic banks which also include the United States affiliates of large international bank with a short-term rating of A1 from Standard and Poor's Corporation and P1 from Moody's Investor Service, (6) Money market mutual funds with the highest rating by at least one rating agency, (7) Commercial paper with a minimum of an A1/P1 rating by at least on recognized rating agency, (8) State of Maryland Local Government Investment Pool, (9) Bond, notes or other obligation (with the highest rating by at least one recognized rating agency) issued by or on behalf of any state or agency, department, county, municipal or public corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities in this paragraph.

Deposits

At year-end, the carrying amount of the Town's deposits was \$1,287,818, excluding \$450 in petty cash, and the bank balances were \$1,342,825. Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Maryland State Law prescribes that local government units, such as the Town, must deposit its cash in banks with transact business in the State of Maryland. Such banks must also secure any deposits in excess of the Federal Depository Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. The Town's policy requires deposits to be insured by FDIC insurance and balances exceeding FDIC insurance be secured by collateral whose market value is equal to the deposits. As of June 30, 2019, none of the Town's bank balance was exposed to custodial credit risk as all deposits in excess of Federal Depository Insurance were fully collateralized with securities held by its agent or pledging financial institution or trust department in the Town's name.

Investments

The Town has invested at June 30, 2019, \$346 in the State of Maryland Local Government Investment Pool (MLGIP). The pool is under the administrative control of the State's Treasurer's Office. The Town's investments are shown by type, carrying amount, fair value, cost, and level of risk assumed in holding the various accounts. Investments are carried at amortized cost which approximates market. The fair value of MLGIP investments are determined daily. PNC Bank is currently contracted to operate the Pool, and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The Town's fair value position in the Pool is the same as the value of pool share. In addition, there was \$236,311 invested in money market accounts, all of which were covered by FDIC or by pledged collateral held in the Town's name.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the Town's investments were exposed to custodial credit risk as the money market funds and the certificates of deposit were covered by FDIC insurance and the Town's investment in MLGIP were held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

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

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town policy provides to the extent practicable, investments are matched with anticipated cash flows. As of June 30, 2019, the Town had the following investments and maturities within its excess operating and fiduciary fund accounts:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
Money Market Funds	\$ 236,311	\$ 236,311	\$ -	\$ -
Certificate of Deposit	1,249,801	1,000,000	249,801	-
Total	<u>\$ 1,486,112</u>	<u>\$ 1,236,311</u>	<u>\$ 249,801</u>	<u>\$ -</u>

Credit Risk – Credit risk is the risk that an issuer or counter party to an investment will not fulfill its obligation.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a formal policy that places a limit on the amount or percent that may be invested in any one issuer. The Town was not exposed to concentration of credit risk at June 30, 2019.

The Town had the following investments at June 30, 2019:

Types of Investments	Fair Value/ Carrying Amount	Cost	Credit Rating
MLGIP	\$ 346	\$ 346	AAAm
Money Market: PNC	<u>236,311</u> 236,311	<u>236,311</u> 236,311	N/A
Certificates of Deposit	<u>1,249,801</u>	<u>1,249,801</u>	N/A
Total Investments	<u>\$ 1,486,458</u>	<u>\$ 1,486,458</u>	

NOTE 3: RESTRICTED CASH AND CASH EQUIVALENTS

Assets whose use is limited to a specific purpose has been classified as restricted in the governmental fund balance sheet and the Governmental Activities in the Statement of Net Position. The restricted cash and cash equivalents of \$28,892 is comprised of funds held as escrow deposits and unearned revenue.

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

NOTE 4: PROPERTY TAXES

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

The tax rate for locally assessed real property was set by the Town at \$0.22 for each hundred dollars of valuation. The tax rate for business personal property was set at \$0.55 for each hundred dollars of valuation in 2019.

NOTE 5: CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated (cost):				
Land	\$ 930,123	\$ -	\$ -	\$ 930,123
Total capital assets not being depreciated	930,123	-	-	930,123
Capital assets being depreciated (cost):				
Land Improvements	18,011,143	554,058	-	18,565,201
Facilities	1,597,474	-	-	1,597,474
Equipment	2,312,600	321,433	(48,848)	2,585,185
Total capital assets being depreciated	21,921,217	875,491	(48,848)	22,747,860
Less accumulated depreciation for:				
Land Improvements	(15,030,138)	(349,228)	-	(15,379,366)
Facilities	(517,214)	(31,984)	-	(549,198)
Equipment	(1,883,638)	(223,818)	48,202	(2,059,254)
Total accumulated depreciation	(17,430,990)	(605,030)	48,202	(17,987,818)
Total capital assets being depreciated, net	4,490,227	270,461	(646)	4,760,042
Total capital assets, governmental activities	\$ 5,420,350	\$ 270,461	\$ (646)	\$ 5,690,165

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

<u>Governmental activities</u>	
General government	\$ 7,606
Public safety	82,192
Public works	483,548
Recreation and parks	31,684
Total depreciation expense – governmental activities	<u>\$ 605,030</u>

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

NOTE 5: CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Business-Type Activities</u>				
Capital assets not being depreciated (cost):				
Land	\$ 72,525	\$ -	\$ -	\$ 72,525
Total capital assets not being depreciated	<u>72,525</u>	<u>-</u>	<u>-</u>	<u>72,525</u>
Capital assets being depreciated (cost):				
Land Improvements	1,296,017	147,975	-	1,443,992
Facilities	10,443,193	607	-	10,443,800
Equipment	1,423,199	193,983	(142,140)	1,475,042
Total capital assets being depreciated	<u>13,162,409</u>	<u>342,565</u>	<u>(142,140)</u>	<u>13,362,834</u>
Less accumulated depreciation for:				
Land Improvements	(951,732)	(16,308)	-	(968,040)
Facilities	(2,982,627)	(207,314)	-	(3,189,941)
Equipment	(814,023)	(136,228)	141,826	(808,425)
Total accumulated depreciation	<u>(4,748,382)</u>	<u>(359,850)</u>	<u>141,826</u>	<u>(4,966,406)</u>
Total capital assets being depreciated, net	<u>8,414,027</u>	<u>(17,285)</u>	<u>(314)</u>	<u>8,396,428</u>
Total capital assets, business-type activities	<u>\$ 8,486,552</u>	<u>\$ (17,285)</u>	<u>\$ (314)</u>	<u>\$ 8,468,953</u>

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

Business-Type Activities:

Water	<u>\$ 359,850</u>
Total depreciation expense – business-type activities	<u>\$ 359,850</u>

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

NOTE 6: LONG – TERM LIABILITIES

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

	Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019	Due Within One Year
<u>Governmental activities</u>					
Bonds from direct borrowings	\$ 464,941	\$306,936	\$(105,074)	\$ 666,803	\$115,864
Capital lease obligation	68,419	122,410	(20,244)	170,585	25,340
Compensated absences	94,340	26,435	-	120,775	-
Net pension liability	1,149,121	-	(132,933)	1,016,188	-
Governmental activities long-term liabilities	<u>\$1,776,821</u>	<u>\$455,781</u>	<u>\$(258,251)</u>	<u>\$ 1,974,351</u>	<u>\$141,204</u>
<u>Business-type activities</u>					
Bond from direct borrowings	\$2,784,000	\$ -	\$(58,000)	\$ 2,726,000	\$ 58,000
General obligation notes	138,755	-	(45,070)	93,685	46,242
Capital lease obligation	68,419	122,410	(20,244)	170,585	25,340
Compensated absences	28,953	3,519	-	32,472	-
Business-type activities long-term liabilities	<u>\$3,020,127</u>	<u>\$125,929</u>	<u>\$(123,314)</u>	<u>\$ 3,022,742</u>	<u>\$129,582</u>

The net pension liability and compensated absences are liquidated by the General Fund.

Pertinent information regarding governmental activities long-term debt obligations outstanding is presented below (payable from general fund tax revenues):

Date of Issue	Amount of Original Issue	Purpose	Balance Outstanding at June 30, 2019
2004	\$ 600,000	Public Improvement Bond issued to finance road improvement, and pay the costs of issuing the bond. Bond carries an interest rate of 3.55% payable semi-annually on April 1 and October 1. (Final maturity is October 2019)	\$ 40,000
2013	\$ 500,000	Public Improvement Bond issued to finance road improvement and pay the costs of issuing the bonds. Bond carries an interest rate of 2.25% payable semi-annually on March 1 and September 1. (Final maturity is March 2028)	319,867
2018	\$ 651,300	Public Improvement Bond issued to finance the purchase of street lights and pay the costs of issuing the bonds. Bond carries an interest rate of 4.125% payable semi-annually on March 25 and September 25. (Final maturity is September 2033) As of June 30, 2019, the Town has drawn down \$306,936	306,936
			<u>\$ 666,803</u>

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

NOTE 6: LONG – TERM LIABILITIES (CONTINUED)

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

	<u>Bonds From Direct Borrowings</u>		
	Principal	Interest	Total Debt
	Requirements	Requirements	Service
	Requirements	Requirements	Requirements
2020	\$ 115,864	\$ 18,277	\$ 134,141
2021	76,598	17,151	93,749
2022	77,349	14,610	91,959
2023	78,116	12,051	90,167
2024	78,902	9,475	88,377
2025-2029	239,974	7,700	247,674
	<u>\$ 666,803</u>	<u>\$ 79,264</u>	<u>\$ 746,067</u>

In September 2018, the Town issued a Public Improvement Bond of 2018 in the amount of \$651,300. The principal of this bond is payable in annual installments of \$43,420 through 2034. Interest payments on the outstanding principal shall be due semi-annually, on March 25 and September 25 of each year, beginning March 25, 2019. The interest rate on the bonds is 4.125%. The proceeds of the bond will be used to finance the purchase of street lights. At June 30, 2019, the Town had drawn down \$306,936 on the bond and accordingly the principal balance outstanding on the bond was \$306,936.

Pertinent information regarding business-type activities long-term debt obligations outstanding is presented below (payable from water fund revenues):

<u>Date of Issue</u>	Amount of Original Issue	<u>Purpose</u>	Balance Outstanding at June 30, 2019
2000	\$ 722,587	Note Payable issued to finance the water tower project and pay the costs of issuing the note. Note carries an interest rate of 2.60% payable semi-annually on February 1 and August 1. (Final maturity is February 2021)	\$ 93,685
2015	\$ 2,900,000	General Obligation Bond issued to finance the Water Main Replacement project and pay the costs of issuing the bonds. Bond carries an interest rate of 4.125% payable semi-annually on June 1 and December 1. (Final maturity is December 2035)	2,726,000
			<u>\$ 2,819,685</u>

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

NOTE 6: LONG – TERM LIABILITIES (CONTINUED)

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

	<u>General Obligation Notes</u>		<u>Bonds From Direct Borrowings</u>		Total Debt Service Requirements
	Principal Requirements	Interest Requirements	Principal Requirements	Interest Requirements	
2020	\$ 46,242	\$ 2,435	\$ 58,000	\$ 111,251	\$ 217,928
2021	47,443	1,234	58,000	108,859	215,536
2022	-	-	58,000	106,466	164,466
2023	-	-	58,000	104,074	162,074
2024	-	-	58,000	101,681	159,681
2025-2029	-	-	290,000	472,519	762,519
2030-2034	-	-	290,000	412,706	702,706
2035-2036	-	-	1,856,000	112,448	1,968,448
	<u>\$ 93,685</u>	<u>\$ 3,669</u>	<u>\$ 2,726,000</u>	<u>\$ 1,530,004</u>	<u>\$ 4,353,358</u>

NOTE 7: CAPITAL LEASES

In 2018, the Town entered into a capital lease to finance the purchase of a front end loader at an incremental borrowing rate of 4.10%. The term of the lease is seven years with payments of \$1,979 per month beginning in February 2018 and maturing January 2025. The purchase is recorded in both the Governmental and Business-Type Funds.

In 2019, the Town entered into a capital lease to finance the purchase of a backhoe at an incremental borrowing rate of 4.6%. The term of the lease is seven years with payments of \$1,557 per month beginning in January 2019 and maturing December 2025. The purchase is recorded in both the Governmental and Business-Type Funds.

In 2019, the Town entered into a capital lease to finance the purchase of a dump truck at an incremental borrowing rate of 4.5%. The term of the lease is seven years with payments of \$1,850 per month beginning in August 2018 and maturing July 2025. The purchase is recorded in both the Governmental and Business-Type Funds.

The Town recorded \$98,820 of depreciation expense during 2018 for these leasehold assets in the Governmental and Business-Type Funds. The assets (recorded as Vehicles and Equipment) acquired through the capital leases in the Governmental and Business-Type Funds are as follows:

Assets:	
Leasehold Assets	\$ 194,569
Less: Accumulated Depreciation	<u>(53,705)</u>
Total	<u>\$ 140,864</u>

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

NOTE 7: CAPITAL LEASES (CONTINUED)

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

Year Ending December 31	<u>Governmental Activities</u>	<u>Business-Type</u>
2020	\$ 32,321	\$ 32,321
2021	32,321	32,321
2022	32,321	32,321
2023	32,321	32,321
2024	32,321	32,321
2025	27,373	27,373
2026	5,597	5,597
Total Minimum Lease Payments	194,575	194,575
Less: Amount Representing Interest	<u>(23,990)</u>	<u>(23,990)</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 170,585</u>	<u>\$ 170,585</u>

NOTE 8: PENSION PLAN

General Plan InformationPlan Description

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

The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Retirement and Pension System of Maryland issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Maryland State Retirement Agency of Maryland, 120 East Baltimore Street, Baltimore, Maryland, 21202, or on the internet at www.srs.state.md.us.

Benefits Provided

The Plan provides retirement, death, and disability benefits. The Plan's normal retirement allows for members reaching the age of 50 or 25 years of eligible service. The Plan's normal retirement benefit is equal to 2% of the member's average final compensation (AFC) multiplied by the member's years of accumulated creditable service up to 30 years. A member retiring with 30 or more years of service is limited to 60% of average final compensation.

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

NOTE 8: PENSION PLAN (CONTINUED)

Contributions

The contribution requirements of the Plan members and the Town are established and may be amended by the System's Board of Trustees. Members are required to contribute 7% of annual compensation to the Plan. The Town is required to contribute at an actuarially determined rate to the Plan. The Town's contractually required contribution rate for the year ended June 30, 2019 was 17.71%. Contributions from the Town to the Plan were \$72,215 for the year ended June 30, 2019.

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

As of June 30, 2019, the Town reported a liability of \$1,016,188 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on actual employer contributions to the plan. At June 30, 2018, the Town's proportionate share was 0.0048432%, which was a decrease of 0.0004710% from its proportion measured as of June 30, 2017.

For the fiscal year ended June 30, 2019, the Town recognized pension expense of \$149,666. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ -	\$ 82,237
Contribution Subsequent to Measurement Date	72,215	-
Change of Assumptions	29,637	-
Changes in Proportion	123,104	81,709
Difference Between Projected and Actual Investment Earnings	37,215	-
Total	<u>\$ 262,171</u>	<u>\$ 163,946</u>

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

NOTE 8: PENSION PLAN (CONTINUED)

The \$72,215 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Governmental Activities
2020	\$ 42,389
2021	19,434
2022	(13,877)
2023	(6,286)
2024	(15,650)
Total	\$ 26,010

Actuarial methods and assumptions

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

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

Retirement age was based on an experience-based table of rates that are specific to the type of eligibility condition and was last updated for the 2015 valuation pursuant to an experience study for the period 2010-2014.

Mortality rates were based on RP-2014 Mortality Tables with generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.

Changes of assumptions. For the measurement period ended June 30, 2017 to June 30, 2018, the discount rate used decreased from 7.50% to 7.45% and the rate of inflation decreased from 2.65% to 2.60%. Also, the salary rate increase used decreased from 3.15% to 3.10.

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

NOTE 8: PENSION PLAN (CONTINUED)

The long-term expected real rate of return for pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan's current and target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	5.8%
Private Equity	13%	6.7%
Rate Sensitive	19%	1.1%
Credit Opportunity	9%	3.6%
Real Return	14%	4.8%
Absolute Return	8%	3.2%

Discount Rate

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

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Town's proportionate share of the Net Pension Liability	\$ 1,463,663	\$ 1,016,188	\$ 644,820

Pension Plan fiduciary net position

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

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

NOTE 9: DEFERRED COMPENSATION PLAN

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

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

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

Under the provisions of GASB Statement No. 32, it is no longer considered appropriate to report the Section 457 plan in the Town's financial statements. The Town contributed \$70,318 to the 457 plan for the year ended June 30, 2019 and the investments in the 457 plan at fair market value were \$2,824,449 at June 30, 2019.

NOTE 10: COMMITMENTS AND CONTINGENCIES

In 2004, the Town loaned \$182,000 to Hampstead Village, LLC for the development of the former Hampstead Elementary School into an affordable senior housing facility. The note receivable is subordinated and bears compound interest at the rate of 5.01% per annum. Conditionally, the principal and all accrued interest is due and payable on December 1, 2045 if the Village ceases to exist during the loan period. As of June 30, 2018, the note receivable is \$360,828 and the Town has recorded an allowance for uncollectible accounts of (\$360,828). The Town does not anticipate at this time that the note receivable will be collected due to the Town being in the 5th lien position of the Deed of Trust dated June 21, 2004.

As of June 30, 2019, there are no claims or suits pending against the Town or its elected officials.

NOTE 11: DEFICIT OF UNRESTRICTED NET POSITION

For the year ended June 30, 2019, the Town has a deficit of unrestricted net position in the proprietary fund of \$296,579. Management anticipates increasing water rates and updating impact fees to increase revenue to close the deficit.

NOTE 12: INTERFUND BALANCES AND TRANSFERS

As of June 30, 2019, the amount due to the General Fund from the Water Fund was \$565,633. The outstanding balance between funds result mainly from the time lag between the dates that reimbursable expenditures occur and payments between funds are made.

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

NOTE 13: RISK MANAGEMENT

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

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

REQUIRED
SUPPLEMENTARY
INFORMATION

TOWN OF HAMPSTEAD
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Taxes	\$ 2,307,044	\$ 2,307,044	\$ 2,414,405	\$ 107,361
Intergovernmental	719,553	719,553	697,070	(22,483)
Charges for Services	19,583	19,583	17,447	(2,136)
Fines, Licenses and Permits	66,315	66,315	66,385	70
Interest and Rents	11,480	11,480	21,763	10,283
Miscellaneous Income	79,850	79,850	111,219	31,369
	<hr/>			
Total Revenues	3,203,825	3,203,825	3,328,289	124,464
Expenditures				
Current:				
General Government	691,089	691,089	662,288	28,801
Public Safety	1,191,620	1,191,620	924,304	267,316
Public Works	949,704	942,704	878,078	64,626
Recreation and Parks	137,037	137,037	123,864	13,173
Debt Service:				
Principal	109,807	109,807	125,318	(15,511)
Interest	10,103	10,103	12,658	(2,555)
Capital Outlay	1,196,003	1,203,003	875,491	327,512
	<hr/>			
Total Expenditures	4,285,363	4,285,363	3,602,001	683,362
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,081,538)	(1,081,538)	(273,712)	807,826
Other Financing Sources (Uses)				
Debt Service Proceeds	-	-	306,936	306,936
Capital Lease Proceeds	-	-	122,410	122,410
Transfers Out	(31,262)	(31,262)	-	31,262
	<hr/>			
Total Other Financing Sources (Uses)	(31,262)	(31,262)	429,346	460,608
Net Change in Fund Balance	<u>\$ (1,112,800)</u>	<u>\$ (1,112,800)</u>	<u>\$ 155,634</u>	<u>\$ 1,268,434</u>

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0048432%	0.0053142%	0.0043956%	0.004220%	0.004330%
Town's proportionate share of the net pension liability	\$ 1,016,188	\$ 1,149,121	\$ 1,037,110	\$ 877,667	\$ 769,266
Town's covered payroll	\$ 573,009	\$ 564,707	\$ 508,440	\$ 425,801	\$ 457,752
Town's proportionate share of the net pension liability as a percentage of its covered payroll	177.34%	203.49%	203.98%	206.12%	168.05%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	69.38%	65.79%	68.78%	71.87%

Note:
 The above schedules are presented to illustrate the requirement for specific information for 10 years; however until a full 10-year trend is compiled, information is only presented for those years for which information is available.

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 72,215	\$ 96,578	\$ 108,162	\$ 85,631	\$ 89,015	\$ 101,014
Contributions in relation to the contractually determined contribution	<u>72,215</u>	<u>96,578</u>	<u>108,162</u>	<u>85,631</u>	<u>89,015</u>	<u>101,014</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 573,009	\$ 564,707	\$ 508,440	\$ 425,801	\$ 457,752	476,649
Contributions as a percentage of covered payroll	12.60%	17.10%	21.27%	20.11%	19.45%	21.19%

Note:
The above schedules are presented to illustrate the requirement for specific information for 10 years; however until a full 10-year trend is compiled, information is only presented for those years for which information is available.

Changes in assumptions:
The discount rate changed from 7.50% to 7.45% from 2017 to 2018.
Inflation changed from 2.65% to 2.60% from 2017 to 2018.
Salary increases changed from 3.15% to 3.10% from 2017 to 2018.