

BOONSBORO MAYOR AND COUNCIL



FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

BOONSBORO MAYOR AND COUNCIL

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INDEPENDENT AUDITORS' REPORT

Boonsboro Mayor and Council
Boonsboro, 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 **Boonsboro Mayor and Council (“the Town”)** 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of June 30, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the included supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3-8 and 37-40 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 evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison information for the water and sewer funds on pages 41 – 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The water and sewer funds budgetary comparison information is the responsibility of management. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Albright Crumbacker Moul & Itell, LLC

Hagerstown, Maryland
February 4, 2019

Mayor and Council of Boonsboro
Management's Discussion and Analysis
June 30, 2018

The following discussion and analysis of the Mayor and Council of Boonsboro's (the Town) financial performance provides an overview of the Town's financial condition and activities for the fiscal year ended June 30, 2018. Please read the analysis in conjunction with the Town's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018

The assets of the town exceeded its liabilities at the close of the fiscal year by \$11,929,242 (net position). Of this amount, \$2,531,535 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.

The total net position increased by \$1,924,830. Of this amount, an increase of \$353,303 and \$1,571,527 were associated with governmental and business-type activities, respectively.

As of the close of the current fiscal year, the Town's general fund reported a fund balance of \$3,514,709, which is an increase of \$381,678 in comparison to the prior year.

The net position for business-type activities (Water and Sewer) increased by \$1,571,527.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide the 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. The design of this statement is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, sanitation, highways and streets, parks and recreation, and other charges. The major business-type activities of the Town include the operation and maintenance of the water and sanitary sewer systems. The government-wide financial statements can be found on pages 9 and 10 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. In contrast to the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflow 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 annual financing requirements of governmental programs and commitment of spendable resources for the near-term.

Because the focus of spendable resources 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund.

Proprietary funds. Services for which the Town charges a fee are generally reported in the proprietary fund. The Town's enterprise funds are the same as its *business-type activities* in the government-wide financial statements, only in more detail. The Town uses enterprise funds to account for the Water Fund and Sewer Fund.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. Budgetary comparison schedules for the General Fund, Water Fund, and Sewer Fund are presented immediately after the basic financial statements.

Financial Analysis of the Town as a Whole

Over time, net position may serve as a useful indicator of a government's financial position. The Town's combined assets exceeded liabilities by \$11,929,242 at the close of the most recent fiscal year. The following table provides a summary of the Town's net assets at June 30, 2018 and 2017:

Table 1
Town of Boonsboro
Fiscal Years Ended June 30,

	Governmental		Business-Type		Totals		Change
	2018	2017	2018	2017	2018	2017	
Assets:							
Current Assets	\$ 2,433,287	\$ 2,276,466	\$ 1,736,475	\$ 1,284,877	\$ 4,169,762	\$ 3,561,343	\$ 608,419
Capital Assets	3,895,962	4,091,481	11,620,239	12,423,132	15,516,201	16,514,613	(998,412)
Other Assets	1,286,860	1,166,394	(1,286,860)	(1,166,394)	-	-	-
Total Assets	7,616,109	7,534,341	12,069,854	12,541,615	19,685,963	20,075,956	(389,993)
Liabilities:							
Current and Other Liabilities	376,964	476,972	1,062,797	1,487,903	1,439,761	1,964,875	(525,114)
Long-Term Liabilities	484,728	656,255	5,832,232	7,450,414	6,316,960	8,106,669	(1,789,709)
Total Liabilities	861,692	1,133,227	6,895,029	8,938,317	7,756,721	10,071,544	(2,314,823)
Net Position:							
Invested in capital assets, net of related debt	3,239,708	3,435,226	5,574,067	4,688,931	8,813,775	8,124,157	689,618
Restricted	122,418	246,779	461,514	302	583,932	247,081	336,851
Unrestricted	3,392,291	2,719,109	(860,756)	(1,085,935)	2,531,535	1,633,174	898,361
Total Net Position	\$ 6,754,417	\$ 6,401,114	\$ 5,174,825	\$ 3,603,298	\$ 11,929,242	\$ 10,004,412	\$ 1,924,830

Of the Town's net position, 74 percent reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for spending. Although the Town's investment in 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.

Five percent of the Town's assets are legally restricted for various purposes. Additional information on the Town's restricted assets can be found on the government-wide statement of net position, on page 9 of this report.

The remaining balance of unrestricted net position may be used to meet the Town's ongoing obligations to citizens and creditors.

Table 2
Changes in the Town of Boonsboro's Net Position
Fiscal Years Ended June 30,

	Governmental Activities		Business-Type Activities		Totals		Change
	2018	2017	2018	2017	2018	2017	
Revenues							
General Revenues							
Property Taxes	\$ 1,150,528	\$ 1,087,030	\$ -	\$ -	\$ 1,150,528	\$ 1,087,030	\$ 63,498
Income Taxes	352,974	351,942	-	-	352,974	351,942	1,032
Highway Taxes	121,758	116,604	-	-	121,758	116,604	5,154
County Taxes	54,226	38,083	-	-	54,226	38,083	16,143
Other Income	43,962	59,827	2,525,041	237,024	2,569,003	296,851	2,272,152
Interest Income	19,484	20,043	6,826	5,962	26,310	26,005	305
Program Revenues							
Public Safety	31,276	34,018	-	-	31,276	34,018	(2,742)
Parks and Recreation	19,125	249,821	-	-	19,125	249,821	(230,696)
Sanitation	105,581	103,417	-	-	105,581	103,417	2,164
Water and Sewer	-	-	1,683,408	1,521,315	1,683,408	1,521,315	162,093
Other Income	35,025	42,515	30,000	30,000	65,025	72,515	(7,490)
Total Revenues	1,933,939	2,103,300	4,245,275	1,794,301	6,179,214	3,897,601	2,281,613
Expenditures							
General Government	331,167	291,890	-	-	331,167	291,890	39,277
Public Safety	408,775	448,522	-	-	408,775	448,522	(39,747)
Sanitation	183,115	173,766	-	-	183,115	173,766	9,349
Highways and streets	255,266	242,118	-	-	255,266	242,118	13,148
Parks and Recreation	202,657	199,307	-	-	202,657	199,307	3,350
Non-departmental	185,192	171,885	-	-	185,192	171,885	13,307
Interest Expense	14,464	20,578	254,886	269,943	269,350	290,521	(21,171)
Bond issuance costs	-	-	101,683	-	101,683	-	101,683
Water/Sewer Utilities	-	-	2,317,179	2,229,418	2,317,179	2,229,418	87,761
Total Expenditures	1,580,636	1,548,066	2,673,748	2,499,361	4,254,384	4,047,427	206,957
Change in Net Position	353,303	555,234	1,571,527	(705,060)	1,924,830	(149,826)	2,074,656
Beginning Net Position	6,401,114	5,845,880	3,603,298	4,308,358	10,004,412	10,154,238	(149,826)
Total Net Position	\$ 6,754,417	\$ 6,401,114	\$5,174,825	\$ 3,603,298	\$11,929,242	\$ 10,004,412	\$ 1,924,830

Governmental activities. Governmental activities net position was \$6,754,417 at the end of the fiscal year, an increase of \$353,303 from beginning net position. This increase accounts for 18% of the total growth in the Town's net position. This compares to the previous year when governmental activities increased the Town's net position by \$555,234. The Town's revenues from governmental activities totaled \$1,933,939 for the fiscal year. Revenue from taxes represented 87% of total revenue. The major sources of revenue for the Town were real estate and personal property taxes of \$1,150,528 and state income and highway user taxes of \$474,732.

The Town's expenditures from governmental activities totaled \$1,580,636 for the fiscal year. Expenditures of public safety comprised the largest portion of total expenditures from governmental activities and totaled \$408,775 or 26%; general government expenses were the second largest portion of total expenditures at \$331,167 or 21%.

Business-type activities. Business-type activities net position was \$5,174,825 at the end of the fiscal year, an increase of \$1,571,527 over beginning net position. A key component of this increase was a \$2,000,000 grant for the Sewer Fund which was restricted for the payment of debt. Operating expenditures exceeded operating revenue by \$603,771 during the year.

Financial Analysis of the Town's Fund

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

The Town's general fund is the only governmental fund. At the end of the fiscal year, the fund balance of the general fund was \$3,514,709, of which \$2,306,886 was unassigned, \$1,085,405 was nonspendable and \$122,418 was restricted for various purposes (see page 11 of this report for further detail on restricted balances). 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 represents approximately 145% of total general fund expenditures.

Proprietary fund. The Town's proprietary fund provides the same type of information found in the business-type activities of the government-wide financial statements, but in greater detail.

The Water Fund and Sewer Fund are the Town's proprietary funds. Unrestricted net position (deficit) of the Water Fund and Sewer Fund at the end of the fiscal year was \$789,514 and \$(1,650,270), respectively.

General Fund Budgetary Highlights

The Charter of the Town of Boonsboro requires that the budget be formally adopted by the Mayor and Council of Boonsboro. The budget was approved by the Mayor and Council. There were no amendments to the original budget during the fiscal year.

Actual revenues on the budgetary basis were \$1,933,939, which exceeded expenditures by \$381,678. Property tax revenue exceeded the budgeted estimate by approximately \$79,000 while expenditures were approximately \$174,000 less than budgeted due primarily to lower capital outlays, compensation and benefit costs, and maintenance expenses.

Capital Assets and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 was \$15,516,201 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, infrastructure, utility plants, and construction in progress. The Town's net investment in capital assets for the current fiscal year decreased by 4.8 percent for governmental and 6.5 percent for business-type activities as a result of current year depreciation, disposals, and net of any current year additions. More detailed information regarding the Town's capital assets can be found in Notes 1 and 5 to the financial statements.

Table 3
Town of Boonsboro's Capital Assets (net of accumulated depreciation)
Fiscal Years Ended June 30,

	Governmental Activities		Business-Type Activities		Totals		Amount Change
	2018	2017	2018	2017	2018	2017	
Non-Depreciable Assets:							
Land	\$ 1,209,646	\$ 1,209,646	\$ 158,317	\$ 158,317	\$ 1,367,963	\$ 1,367,963	\$ -
Construction In Progress	27,796	27,796	-	-	27,796	27,796	-
Depreciable Assets:							
Buildings	271,687	299,885	2,858	2,948	274,545	302,833	(28,288)
Machinery & Equipment	168,988	203,598	364,963	412,678	533,951	616,276	(82,325)
Parks & Recreation	1,343,253	1,412,787	-	-	1,343,253	1,412,787	(69,534)
Vehicles	157,540	167,294	77,519	66,655	235,059	233,949	1,110
Infrastructure	717,052	770,475	3,546,887	3,676,814	4,263,939	4,447,289	(183,350)
Utility Plants	-	-	7,469,695	8,105,720	7,469,695	8,105,720	(636,025)
Total	\$ 3,895,962	\$ 4,091,481	\$ 11,620,239	\$ 12,423,132	\$ 15,516,201	\$ 16,514,613	\$ (998,412)

Long-Term Debt. At June 30, 2018, the Town had total debt outstanding of \$6,701,728. The Town's long-term debt decreased 22 percent during the fiscal year due to scheduled payments, the refinancing of a bond, and the repayment of a bond with the proceeds of a grant. Additional information on long-term debt can be found in Note 9 to the basic financial statements.

Table 4
Town of Boonsboro's Long-term Debt
Fiscal Years Ended June 30,

	Governmental		Business-Type		Totals		Change
	2018	2017	2018	2017	2018	2017	
Note Payable - MWQFA	\$ 93,000	\$ 108,500	\$ -	\$ -	\$ 93,000	\$ 108,500	\$ (15,500)
Note Payable - Park Development	563,254	714,899	-	-	563,254	714,899	(151,645)
Notes Payable - MDE	-	-	311,165	343,054	311,165	343,054	(31,889)
Bond Payable - USDA	-	-	-	5,478,217	-	5,478,217	(5,478,217)
Infrastructure Bond - WWTP	-	-	5,434,500	-	5,434,500	-	5,434,500
Bond Payable - MDE	-	-	-	1,527,865	-	1,527,865	(1,527,865)
Note Payable - Columbia Bank	-	-	71,008	99,410	71,008	99,410	(28,402)
Note Payable - BB&T	-	-	144,160	284,957	144,160	284,957	(140,797)
Net unamortized bond premium	-	-	84,641	-	84,641	-	84,641
Total	\$ 656,254	\$ 823,399	\$6,045,474	\$7,733,503	\$6,701,728	\$8,556,902	\$(1,855,174)

Economic Factors

The Town continually seeks grants to support revenue, in addition to State and Federal financial support to sustain essential services and programs. Tax revenues from real and personal property as well as state and county shared taxes will continue to remain as the primary source of revenue for the Town's general fund.

The associated expense of operating and maintaining the Town's Advanced Wastewater Treatment Facility constructed in 2009 has dramatically altered the procedures and methods in operating and maintaining the Town's sewer system. In addition, the need for water/sewer system wide improvements due to aging infrastructure has necessitated the need to review water and sewer rates on an annual basis and, as necessary, consider adjustments to quarterly water and sewer rates.

The Mayor and Council will continue to work in cooperation with staff and the citizens to make the best financial decisions possible for the betterment of the Town and the citizens of Boonsboro.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town Manager, Town of Boonsboro, 21 N. Main Street, Boonsboro, MD 21713.

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF NET POSITION

June 30,

2018

PRIMARY GOVERNMENT

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 2,290,673	\$ 756,196	\$ 3,046,869
Restricted cash and cash equivalents	72,041	456,931	528,972
Receivables:			
Customers accounts	21,767	523,348	545,115
Taxes	2,488	-	2,488
Other governmental agencies	27,738	-	27,738
Developer, net of allowance for doubtful accounts of \$594,723	-	-	-
Other	364	-	364
Prepaid expenses	18,216	-	18,216
Intercompany balances	219,671	(219,671)	-
Loans receivable (payable) - other funds	1,067,189	(1,067,189)	-
Capital assets:			
Land	1,209,646	158,317	1,367,963
Other capital assets, net of accumulated depreciation	2,658,520	11,461,922	14,120,442
Construction in progress	27,796	-	27,796
TOTAL ASSETS	7,616,109	12,069,854	19,685,963
LIABILITIES			
Accounts payable	134,754	49,996	184,750
Accrued expenses	67,484	102,489	169,973
Other accrued liabilities	3,200	998	4,198
Unearned revenue	-	692,445	692,445
Due to other government agency	-	3,627	3,627
Current maturities of long-term debt	171,526	213,242	384,768
Long-term debt	484,728	5,832,232	6,316,960
TOTAL LIABILITIES	861,692	6,895,029	7,756,721
NET POSITION			
Invested in capital assets, net of related debt	3,239,708	5,574,067	8,813,775
Restricted for:			
Debt service	-	461,514	461,514
Excise tax	26,164	-	26,164
Friends of Shafer Park	45,877	-	45,877
Hotel/motel tax	19,033	-	19,033
Highway user taxes	31,344	-	31,344
Unrestricted (deficit)	3,392,291	(860,756)	2,531,535
TOTAL NET POSITION	\$ 6,754,417	\$ 5,174,825	\$ 11,929,242

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

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF ACTIVITIES

Year ended June 30,

2018

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		TOTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Primary government:							
Governmental activities:							
General government	\$ 331,167	\$ 35,025	\$ -	\$ -	(296,142)	\$ -	(296,142)
Public safety	408,775	-	31,276	-	(377,499)	-	(377,499)
Sanitation	183,115	105,581	-	-	(77,534)	-	(77,534)
Highways and streets	255,266	-	-	-	(255,266)	-	(255,266)
Parks and recreation	202,657	12,367	3,937	2,821	(183,532)	-	(183,532)
Non-departmental	185,192	-	-	-	(185,192)	-	(185,192)
Interest	14,464	-	-	-	(14,464)	-	(14,464)
TOTAL GOVERNMENTAL ACTIVITIES	1,580,636	152,973	35,213	2,821	(1,389,629)	-	(1,389,629)
Business-type activities:							
Water	802,632	703,679	-	-	-	(98,953)	(98,953)
Sewer	1,871,116	979,729	30,000	2,000,000	-	1,138,613	1,138,613
TOTAL BUSINESS-TYPE ACTIVITIES	2,673,748	1,683,408	30,000	2,000,000	-	1,039,660	1,039,660
TOTAL PRIMARY GOVERNMENT	\$ 4,254,384	\$ 1,836,381	\$ 65,213	\$ 2,002,821	(1,389,629)	1,039,660	(349,969)
GENERAL REVENUES							
Taxes							
Property					1,150,528	-	1,150,528
Income					352,974	-	352,974
Highway					121,758	-	121,758
County shared					54,226	-	54,226
Other					29,893	-	29,893
Other income					14,069	525,041	539,110
Interest income					19,484	6,826	26,310
TOTAL GENERAL REVENUES					1,742,932	531,867	2,274,799
Change in net position					353,303	1,571,527	1,924,830
NET POSITION - BEGINNING OF YEAR					6,401,114	3,603,298	10,004,412
NET POSITION - END OF YEAR					\$ 6,754,417	\$ 5,174,825	\$ 11,929,242

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

BOONSBORO MAYOR AND COUNCIL

BALANCE SHEET – GOVERNMENTAL FUND

June 30,

2018

ASSETS

Cash and cash equivalents	\$	2,290,673
Restricted cash and cash equivalents		72,041
Receivables		52,357
Prepaid expenses		18,216
Due from proprietary fund		219,671
Loan receivable from proprietary fund		1,067,189

TOTAL ASSETS

3,720,147

LIABILITIES

Accounts payable		134,754
Accrued expenses		67,484
Other accrued liabilities		3,200

TOTAL LIABILITIES

205,438

FUND BALANCE

Non-spendable:		
Prepaid expenses		18,216
Long-term loans receivable		1,067,189
Restricted for:		
Excise tax		26,164
Friends of Shafer Park		45,877
Hotel/motel tax		19,033
Highway user taxes		31,344
Unassigned		2,306,886

TOTAL FUND BALANCE

3,514,709

TOTAL LIABILITIES AND FUND BALANCE

\$ 3,720,147

BOONSBORO MAYOR AND COUNCIL

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION

June 30,

2018

Fund Balance - total governmental funds	\$	3,514,709
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet		
Governmental capital assets, net of accumulated depreciation		3,895,962
Long-term liabilities are not due and payable in the upcoming year and therefore are not reported in the governmental fund		(656,254)
<hr/>		
Net Position of Governmental Activities	\$	6,754,417

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND

Year ended June 30,

2018

REVENUES

Taxes:

Local	\$	1,150,528
State shared		474,732
County shared		54,226
Other		29,893
Operating grants		35,213
Capital grants and contributions		2,821
Licenses and permits		35,025
Service charges		117,948
Interest income		19,484
Other revenues		14,069

TOTAL REVENUES

1,933,939

EXPENDITURES

General government		275,886
Public safety		380,578
Sanitation		183,115
Highways and streets		200,248
Parks and recreation		90,455
Non-departmental		185,192
Capital outlay		55,179
Debt service:		
Principal		167,144
Interest		14,464

TOTAL EXPENDITURES

1,552,261

Net change in fund balance 381,678

FUND BALANCE - beginning of year 3,133,031

FUND BALANCE - end of year \$ 3,514,709

BOONSBORO MAYOR AND COUNCIL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

<i>Year ended June 30,</i>		2018
Net change in Fund Balance - total governmental funds	\$	381,678
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are capitalized and depreciated over their estimated useful lives. The amount by which capital outlays exceed current year depreciation expense is a required adjustment.		(195,519)
The issuance of long-term debt (e.g. bonds, leases, and notes payable) 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. However, neither transaction has an effect on net assets. This amount represents current year principal payments on long-term debt obligations and loan proceeds from newly issued debt.		167,144
Change in Net Position of Governmental Funds	\$	353,303

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30,

2018

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	Water	Sewer	Total
ASSETS			
Cash and cash equivalents	\$ 514,521	\$ 241,675	\$ 756,196
Restricted cash and cash equivalents	-	456,931	456,931
Receivables:			
Customers accounts	215,786	307,562	523,348
Developer, net of allowance for doubtful accounts of \$594,723	-	-	-
Intercompany balances	109,699	(109,699)	-
Capital assets:			
Land	125,142	33,175	158,317
Other capital assets, net of accumulated depreciation	3,910,693	7,551,229	11,461,922
TOTAL ASSETS	4,875,841	8,480,873	13,356,714
LIABILITIES			
Accounts payable	3,639	46,357	49,996
Accrued expenses	28,140	74,349	102,489
Other accrued liabilities	-	998	998
Unearned revenue	2,000	690,445	692,445
Due to other government agency	3,627	-	3,627
Current maturities of long-term debt	82,743	130,499	213,242
Due to other funds	13,086	206,585	219,671
Loan payable - general fund	-	1,067,189	1,067,189
Long-term debt	400,531	5,431,701	5,832,232
TOTAL LIABILITIES	533,766	7,648,123	8,181,889
NET POSITION			
Invested in capital assets, net of related debt	3,552,561	2,021,506	5,574,067
Restricted for debt service	-	461,514	461,514
Unrestricted (deficit)	789,514	(1,650,270)	(860,756)
TOTAL NET POSITION	\$ 4,342,075	\$ 832,750	\$ 5,174,825

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

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS

Year ended June 30,

2018

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	Water	Sewer	Total
OPERATING REVENUES			
Charges for:			
Services	\$ 641,621	\$ 979,729	\$ 1,621,350
Administration	62,058	-	62,058
Grants	-	30,000	30,000
TOTAL OPERATING REVENUES	703,679	1,009,729	1,713,408
OPERATING EXPENSES			
Advertising	518	1,714	2,232
Benefits	84,841	84,841	169,682
Biosolids removal	-	165,826	165,826
Chemicals	9,950	56,886	66,836
Depreciation	166,983	668,230	835,213
Equipment expense	897	1,619	2,516
Insurance	15,304	34,097	49,401
Maintenance and repairs	78,545	74,935	153,480
Meeting expense	1,230	1,230	2,460
Miscellaneous	997	2,084	3,081
Payroll taxes	19,279	19,016	38,295
Postage	2,000	2,044	4,044
Professional fees	15,346	13,685	29,031
Professional memberships and certifications	1,803	1,115	2,918
Salaries	252,651	249,035	501,686
Supplies	13,443	10,254	23,697
Testing	775	28,788	29,563
Uniforms	2,742	2,742	5,484
Utilities	52,925	104,539	157,464
Vehicle expense	6,183	6,040	12,223
Water meters	62,047	-	62,047
TOTAL OPERATING EXPENSES	788,459	1,528,720	2,317,179
OPERATING INCOME (LOSS)	(84,780)	(518,991)	(603,771)
NON-OPERATING REVENUES (EXPENSES)			
Debt service fees	23,944	-	23,944
Connection fees	210,000	289,988	499,988
Grants	-	2,000,000	2,000,000
Interest income	4,982	1,844	6,826
Interest expense	(14,173)	(240,713)	(254,886)
Bond issuance costs	-	(101,683)	(101,683)
Other non-operating revenues	150	959	1,109
TOTAL NON-OPERATING REVENUES (EXPENSES)	224,903	1,950,395	2,175,298
CHANGE IN NET POSITION	140,123	1,431,404	1,571,527
TOTAL NET POSITION - beginning of year	4,201,952	(598,654)	3,603,298
TOTAL NET POSITION - end of year	\$ 4,342,075	\$ 832,750	\$ 5,174,825

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

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year ended June 30,

2018

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 651,084	\$ 937,186	\$ 1,588,270
Cash paid to suppliers for goods and services	(337,595)	(495,476)	(833,071)
Cash payments to employees for services	(358,186)	(354,308)	(712,494)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(44,697)	87,402	42,705
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from (paid to) proprietary fund	(97,825)	97,825	-
Cash paid to other government agency	(1,636)	(24,528)	(26,164)
Cash received from the general fund	27,786	92,681	120,467
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	(71,675)	165,978	94,303
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(16,160)	(16,160)	(32,320)
Proceeds from bond payable	-	5,537,670	5,537,670
Principal payments on notes payable	(194,158)	(7,031,541)	(7,225,699)
Interest paid on notes payable	(15,567)	(225,828)	(241,395)
Bond issuance costs	-	(101,683)	(101,683)
Connection fees	210,000	11,000	221,000
Debt service fees	23,944	-	23,944
Other	150	2,000,959	2,001,109
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	8,209	174,417	182,626
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	4,982	1,844	6,826
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,982	1,844	6,826
INCREASE (DECREASE) IN CASH	(103,181)	429,641	326,460
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	617,702	268,965	886,667
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 514,521	\$ 698,606	\$ 1,213,127
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION - PROPRIETARY FUNDS			
Cash and cash equivalents	\$ 514,521	\$ 241,675	\$ 756,196
Restricted cash and cash equivalents	-	456,931	456,931
TOTAL CASH AND CASH EQUIVALENTS	\$ 514,521	\$ 698,606	\$ 1,213,127

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

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year ended June 30,

2018

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	Water	Sewer	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (84,780)	\$ (518,991)	\$ (603,771)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	166,983	668,230	835,213
(Increase) decrease in:			
Customer accounts receivable	(52,595)	(72,543)	(125,138)
Increase (decrease) in:			
Accounts payable	(72,889)	12,122	(60,767)
Accrued expenses	(1,416)	(1,416)	(2,832)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (44,697)	\$ 87,402	\$ 42,705

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

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The primary government is the Mayor and Council of Boonsboro, referred to herein as the Town or the Mayor and Council.

Reporting Entity

The Town is located in Washington County and was incorporated under the provisions of Maryland law. The Town operates under a Council form government and provides its citizens with services in areas of general government, public safety, highways and streets, sanitation and waste removal, and parks and recreation.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions, and authorities for which the Town is financially accountable. The Town has also considered all other potential organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of an organization's governing, and 1) the ability of the Town to impose its will on that organization, or 2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the Town. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

Government - Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole. The statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities generally financed in whole or in part with fees charged to external customers.

The statement of net position is designed to display the financial position of the Town as of year-end. Governmental activities are reported on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets, including infrastructure, as well as long-term debt obligations. The Town's net position is reported in three categories – (1) net invested in capital assets; (2) restricted; and (3) unrestricted.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities; and (3) operating grants and contributions which fund the acquisition, construction or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Town have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing U.S. governmental accounting and financial reporting principles. The proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services, and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as receivable at the time they are levied and attached as an enforceable lien on underlying property. Real estate and personal property taxes are levied July 1 of each year and are due and payable no later than September 30 with accrued interest beginning October 1. If tax bills are not paid within eighteen months, legal process is initiated in order to place a lien on the delinquent taxpayer's property. The Town's tax rates for the collection year ended June 30, 2018 were:

Real estate tax	\$.3591 per \$100 of assessable base
Personal property tax	\$.8700 per \$100 of assessable base

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

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The Town has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The Town has one major governmental fund. The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some separate fund are accounted for in this fund.

Proprietary Fund Types: Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

An enterprise fund is used to finance and account for the acquisition, operation, and maintenance of the Town's facilities and services which are supported primarily by user charges. The Water Utility Fund accounts for the activity of the Town's water distribution system and the Sewer Utility Fund accounts for the activity of the Town's sewage treatment plant, sewage pumping stations and collection systems.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town's water and sewer functions and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Except for certain limited reimbursements of administrative expenses and employee benefits made from other funds, the General Fund is not reimbursed by the other funds for general staff services.

Cash Equivalents

For purposes of the statement of cash flows, the Town considers all highly liquid investments, including money market funds, with a maturity of three months or less when purchased to be cash equivalents.

Receivables

The Town's receivables consist of amounts due for property taxes, water and sewer service, and for taxes collected by Washington County and the State of Maryland. The Town has the legal right to place a lien on properties for unpaid taxes or water and sewer service fees.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

The Town provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Consumer accounts receivable are carried at original invoice amounts. Receivables are generally due thirty days after billing. The Town considers allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, projection of trends, and other information. Management of the Town periodically reviews the collectability of accounts receivable, and those accounts which are considered not collectable are written off as bad debts. Delinquent accounts receivable for water, sewer, and sanitation services and property taxes are considered to be fully collectible and, therefore, no allowance for doubtful accounts has been recorded. Based on management's review, an allowance for doubtful accounts related to amounts due from developers has been recorded (Note 15).

Prepaid Expenditures

Payments made to vendors for services that will benefit the Town in periods beyond the end of the fiscal year are reported as prepaid expenditures using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and reflecting the expenditure in the year in which services are consumed.

Capital Assets

Capital assets, including land, buildings, improvements, equipment, and infrastructure (roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial, individual cost of more than \$1,000 for land, buildings, improvements, and equipment, and \$5,000 for infrastructure and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date donated.

GASB Statement No. 34 requires the Town to report all governmental activities' infrastructure assets acquired after June 30, 2003, and encourages, but does not require, the Town to retroactively report infrastructure assets acquired after June 30, 1980. The Town has elected not to retroactively report infrastructure assets and the accompanying basic financial statements only include infrastructure assets acquired after June 30, 2003.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest capitalized for the year ended June 30, 2018.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 50 Years
Machinery and equipment	3 to 40 Years
Parks and recreation	5 to 50 Years
Water and sewer Systems	5 to 50 Years
Infrastructure	10 to 50 Years
Vehicles	5 to 15 Years

Inter-fund Transactions

Activity between funds that are representative of lending / borrowing arrangements at the end of the fiscal year are referred to 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 "Intercompany balances". Any residual balances outstanding between the two proprietary funds are reported in the proprietary fund statement of net position as "Intercompany balances".

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

The Town's personnel policies allow employees to accumulate a limited amount of earned but unused leave, which can be used in a subsequent period or will be paid to employees upon separation from the Town. In the government-wide financial statements and proprietary fund financial statements, all annual, holiday, and compensatory leave are reported as an accrued liability when earned. General Fund amounts are considered a fund liability since they are normally expected to be liquidated with expendable available financial resources.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net 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 and so will not be recognized as an outflow of resources (expense) until then. The Town does not have any items that qualify for reporting in this category.

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 and so will not be recognized as an inflow of resources (revenue) until that time. The Town does not have any items that qualify for reporting in this category.

Equity Classifications

In the government-wide financial statements, equity is classified as net position and displayed in three components:

Invested in capital assets – consists of capital assets net of accumulated depreciation and related debt.

Restricted net position – consists of funds whose use by the Town has been limited by creditors to a specific time period or purpose.

Unrestricted net position – all other net position that do not meet the definition of “invested in capital assets” or “restricted net position”.

The Town's policy regarding an expense for which both restricted and unrestricted net position is available is to first apply the restricted resources. Unrestricted resources are used only to the extent that restricted resources do not cover the incurred expenditure.

In the governmental fund financial statements, equity is to be classified as net position and displayed in each of the applicable five components as prescribed by GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions:

Non-spendable – reflects amounts that are not in spendable form (e.g. inventory, prepaid items, etc.).

Restricted – reflects amounts that are restricted to specific purposes, pursuant to restrictions imposed externally by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – reflects amounts subject to internal constraints self-imposed by formal action of the Boonsboro Mayor and Council (i.e. awarded contracts, passed ordinances, etc.).

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

Assigned – reflects amounts that the Town intends to use for specific purposes. The assignment of fund balance cannot result in a negative unassigned fund balance. The Mayor and Council of Boonsboro delegates to the Town Manager the authority to assign fund balance.

Unassigned – reflects the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned for specific purposes. A negative unassigned fund balance may occur in any fund when there is an over expenditure of Restricted or Committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

When fund balance resources are available for a specific purpose in multiple classifications, the Town's policy is to use restricted resources first and then apply unrestricted resources in the following order: Committed, Assigned, and Unassigned. Committed or Assigned resources would only be used upon specific authorization by the Mayor and Council (and their designee), respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Town is a tax-exempt governmental entity and, accordingly, is exempt from filing Federal and State income tax returns. Therefore, no provision for income taxes has been made in these financial statements.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

General Town revenues and expenditures accounted for in the General Fund are controlled by a formal budgetary accounting system in accordance with legal requirements that govern the Town's operations. Except that a transfer from unappropriated surplus is sometimes budgeted as a revenue item, annual budgets are adopted on a basis consistent with generally accepted accounting principles. The Town budgets capital projects in the General Fund.

The proprietary funds budgets are prepared using a budgetary basis that approximates the cash basis of accounting. Budgetary basis reflects loan proceeds as other revenues, principal payments on debt and capital equipment purchases as expenses and does not reflect depreciation and amortization expense.

The Town's budget is comprised of the current operating budget. The current operating budget is based upon estimated revenues and expenditures of operation for the ensuing fiscal year. All annual appropriations lapse at the fiscal year end.

The Mayor and Council review the operating budget in regular public meetings and in a public hearing. The Town Manager reviews the budget on a monthly basis. All expenditures are approved by the Mayor and Council. If the Mayor and Council approves expenditures not previously budgeted, the Town Manager amends the budget to better reflect comparison to actual results. No supplemental appropriations or authorized budget amendments were made during the year.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

3. RISKS AND UNCERTAINTIES

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 is a member of the Local Government Insurance Trust (LGIT), 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.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members to reduce the possibility of assessments. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages. During fiscal year 2018, the Town paid premiums approximating \$47,000 to the trust. The trust is self-sustaining through member premiums and purchases reinsurance to reduce its exposure to certain large losses. Over the last three years incurred and paid claims have not exceed insurance coverage.

The Town continues to carry commercial insurance for all other 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 years.

The Town maintains its cash balances in several financial institutions, which at times may exceed federally insured limits giving rise to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk; however, State law requires that deposits be insured or collateralized. As of June 30, 2018, \$1,425,786 of the Town's deposits were uninsured and not collateralized and, therefore, exposed to custodial credit risk.

4. RESTRICTED CASH

Due to limited funding resources that are available to the Town, the Friends of Shafer Park (a separate entity) was established by citizens to support the financial efforts required to achieve the financial obligation associated with the expansion of Shafer Park. In June 2012, the Town established a segregated bank account from an initial contribution of \$40,000. During fiscal year 2014, the balance was rolled over into a certificate of deposit.

The Town also has a liquid certificate of deposit restricted for excise taxes. The restricted amount represents excise taxes collected by the Town but not yet spent in accordance with the Excise Tax Ordinance. The balance of the certificate exceeds the restricted portion at June 30, 2018.

During the fiscal year the Town received a \$2 million Bay Restoration Fund grant whose use was restricted for the repayment of wastewater treatment plant debt. A portion of the grant funds were used for debt repayments during the fiscal year. The remaining funds will be applied to the principal payments of the Infrastructure Bond (Note 9) through April 2022.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

A summary of restricted cash as of June 30, 2018 is as follows:

	Governmental Activities	Business-type Activities	Water Fund	Sewer Fund
Friends of Shafer Park	\$ 45,877	\$ -	\$ -	\$ -
Excise taxes	26,164	-	-	-
WWTP debt service	-	456,931	-	456,931
Total restricted cash and cash equivalents	\$ 72,041	\$ 456,931	\$ -	\$ 456,931

5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	2017	Additions	Reductions	2018
<u>Governmental Activities</u>				
Non-depreciable assets:				
Land	\$ 1,209,646	\$ -	\$ -	\$ 1,209,646
Construction in progress	27,796	-	-	27,796
Depreciable:				
Buildings and improvements	1,320,624	-	-	1,320,624
Machinery and equipment	375,100	1,098	-	376,198
Parks and recreation	2,211,936	37,921	-	2,249,857
Vehicles	432,963	16,160	22,696	426,427
Infrastructure	1,588,282	-	-	1,588,282
Total	7,166,347	\$ 55,179	\$ 22,696	7,198,830
Less accumulated depreciation				
Buildings and improvements	1,020,739	\$ 28,198	\$ -	1,048,937
Machinery and equipment	171,502	35,708	-	207,210
Parks and recreation	799,149	107,455	-	906,604
Vehicles	265,669	25,914	22,696	268,887
Infrastructure	817,807	53,423	-	871,230
Total	3,074,866	\$ 250,698	\$ 22,696	3,302,868
Net book value	\$ 4,091,481			\$ 3,895,962

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

	2017	Additions	Reductions	2018
<u>Business-type Activities</u>				
Non-depreciable assets:				
Land	\$ 158,317	\$ -	\$ -	\$ 158,317
Depreciable:				
Buildings and improvements	144,500	-	-	144,500
Machinery and equipment	1,607,479	-	-	1,607,479
Vehicles	158,104	32,320	-	190,424
Infrastructure	6,947,137	-	-	6,947,137
Utility plants	13,211,950	-	-	13,211,950
Total	22,227,487	\$ 32,320	\$ -	22,259,807
Less accumulated depreciation				
Buildings and improvements	141,552	\$ 90	\$ -	141,642
Machinery and equipment	1,194,801	47,715	-	1,242,516
Vehicles	91,449	21,456	-	112,905
Infrastructure	3,270,323	129,927	-	3,400,250
Utility plants	5,106,230	636,025	-	5,742,255
Total	9,804,355	\$ 835,213	\$ -	10,639,568
Net book value	\$ 12,423,132			\$ 11,620,239

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

Governmental Activities	
General government	\$ 55,280
Public safety	28,198
Parks and recreation	55,018
Highways and streets	112,202
	\$ 250,698
Business-type Activities	
Water	\$ 166,983
Sewer	668,230
	\$ 835,213

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

6. ACCRUED EXPENSES AND LIABILITIES

The composition of accrued expenses and liabilities as of June 30, 2018 is as follows:

	Governmental Activities	Business-type Activities	Water Fund	Sewer Fund
Accrued salaries	\$ 13,994	\$ -	\$ -	\$ -
Accrued compensated absences	28,225	24,089	12,045	12,044
Accrued pension	25,220	32,190	16,095	16,095
Accrued interest	-	46,210	-	46,210
Other	45	-	-	-
Total accrued expenses	\$ 67,484	\$ 102,489	\$ 28,140	\$ 74,349
Matured bonds payable	\$ -	\$ 698	\$ -	\$ 698
Deposits	3,200	300	-	300
Total other accrued liabilities	\$ 3,200	\$ 998	\$ -	\$ 998

Deposits in the general fund represent payments by developers for inspections not yet completed or for driveway bonds. The Town collects a deposit from developers prior to the start of construction. As inspection charges are billed to the Town, the payments are made from the money received from the developers. Upon completion of a project, or as driveways are completed, any undisbursed funds are refunded to the developers.

7. INTER-FUND RECEIVABLES AND PAYABLES

The composition of inter-fund balances as of June 30, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General	Water	\$ 13,086
	Sewer	206,585
		\$ 219,671
Water	Sewer	\$ 109,699

Balances due between the funds are the result of activities between funds outstanding at the end of the fiscal year and can be primarily attributed to the time lag between the dates that reimbursable expenditures occur and payments between funds are made. It is not anticipated that this balance will be repaid within the subsequent fiscal year.

8. INTER-FUND LOANS

The Sewer Fund obtained a \$58,880 loan from the General Fund for the purpose of financing repairs to the lagoon. Terms of the loan provide for semi-annual payments totaling \$5,888 commencing December 2001 through June 2012, at 0% interest. The loan is pre-payable without penalty and is unsecured. The commencement of payments was postponed and no payments have been made as of June 30, 2018. Since it is unlikely that any payments will occur within one year, no current maturities are recorded for this loan.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

The Sewer Fund obtained loans totaling \$1,008,309 in previous years to cover loan payments for the wastewater treatment plant upgrades. The loan will be repaid to the General Fund when the outstanding amounts due from developers (Note 15) are paid in full. Since it is unlikely that these payments will occur within one year, no current maturities are recorded for this loan.

The following is a summary of changes in long-term inter-fund loans for the year ended June 30, 2018:

Receivable Fund	Payable Fund	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018	Balance Due Within One Year
General Fund	Sewer Fund	\$ 58,880	\$ -	\$ -	\$ 58,880	\$ -
General Fund	Sewer Fund	1,008,309	-	-	1,008,309	-
		\$1,067,189	\$ -	\$ -	\$ 1,067,189	\$ -

9. LONG-TERM DEBT

The Town's long-term debt as of June 30, 2018 consisted of the following:

Governmental Activities

In March 2004 the Town obtained a \$310,000 note payable from the MWQFA for the purchase of real estate. The note is non-interest bearing. Terms of the note provide for yearly principal payments of \$15,500 commencing on February 2005 through February 2024. There is no prepayment penalty. The note is secured by future water user charges and all fees for the use of the public water system or connections to it.

\$ 93,000

In January 2005 the Town entered into a loan agreement with BB&T in which \$2,000,000 was available to fund Shafer Park improvements. A total of \$1,500,000 was drawn on the loan. In January 2005 the loan balance of \$1,233,142 was refinanced. Under the terms of the refinanced loan, monthly interest only payments at a fixed rate of 2.38% and annual principal payments in varying amounts are due through December 2021. The note can be prepaid without penalty and is collateralized by park real estate.

563,254

Total Governmental Activities

\$ 656,254

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

Business-type Activities

Water Fund

In October 2016 the Town refinanced its Infrastructure Bond 1990 Series I with a note payable from Columbia Bank. The total refinanced amount was \$113,612. The loan is secured by a certificate of deposit held at the bank and interest is payable at a fixed rate of 2.15%. Terms of the loan require monthly interest only payments and quarterly principal payments over 48 months, maturing October 2020. \$ 71,008

In June 1998 the Town received a loan from MDE to assist in the funding of the Water Filtration Project. Under the agreement with MDE, beginning June 1999 the Town pays annual interest at a fixed rate of 4.9%. Payments of \$11,158, including interest, are made annually beginning June 2001 and ending June 2028. In the event of a default, salvage rights shall be provided to the State of Maryland. The loan is prepayable without penalty. Interest will be recomputed if the prepayment of principal is more than six months in advance. 86,565

In March 2008 the Town received a loan in the amount of \$78,000 from MDE to assist in the funding of the Alternate Route 40 Water Main Extension Project. The loan is for the engineering phase of the project. Draws of \$73,980 were made during the duration of the project. The loan is being amortized over 19 annual payments which began in February 2010. Interest at a fixed rate of 2.20% is being paid semi-annually in August and February. The loan is a general obligation of the Town, with the full faith and credit and taxing power of the Town pledged. 40,446

In July 2009 the Town received an additional loan in the amount of \$281,000 from MDE to assist in the funding of the Alternate Route 40 Water Main Extension Project. This loan is for the construction phase of the project. Total drawn during the duration of the project was \$253,574. The loan is being amortized over 19 annual payments which began in February 2011. Interest at a fixed rate of 1% is being paid semi-annually in August and February. The loan is a general obligation of the Town, with the full faith and credit and taxing power of the Town pledged. 141,095

In November 2009 the Town entered into a loan agreement with BB&T in the amount of \$339,834. The remaining balance of \$201,834 was refinanced in April 2016. Under the terms of the refinanced agreement, monthly interest only payments and annual principal payments of \$14,417 beginning September 2016 and ending March 2023 are required. Interest is charged at a fixed rate of 2.1%. The note is prepayable without penalty and is unsecured. 144,160

In June 2014 the Town entered into a loan agreement with BB&T in the amount of \$160,000. In February 2018 the loan was paid in full. -

Total Water Fund \$ 483,274

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

Sewer Fund

In August 2005 the Town obtained a \$127,984 loan from the Maryland Department of the Environment (MDE) for the replacement of the Park View Interceptor. Terms of the note provide for annual payments of \$7,430, including interest at a fixed rate of 1% commencing February 2006 through February 2024. The loan is unsecured and prepayable without penalty. Interest will be recomputed if the prepayment of principal is more than six months in advance.

\$ 43,059

In August 2009 the Town borrowed \$5,991,000 from USDA via the issuance of the Wastewater System Improvements Bond of 2009. The purpose was to finance the Town's wastewater treatment plant (WWTP) upgrade project. In August 2017, the Town refinanced this bond with a Local Government Infrastructure Bond.

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In August 2017 the Town obtained a Local Government Infrastructure Bond 2017 Series A in the amount of \$5,537,670 through the Community Development Administration. The terms of the bond require semi-annual interest payments at a fixed rate of 3.61% plus annual principal payments of varying amounts. The bond matures in April 2047 and is collateralized by all local government payments, including money, securities, bank deposits, and any other investments. The bond is prepayable without penalty but may not be prepaid prior to June 2026.

5,434,500

In July 2009 the Town borrowed \$2,000,000 from MDE by the issuance of the Water Quality Bond Series 2009. The purpose was to finance the Town's WWTP upgrade project. In February 2018 the bond was paid in full with proceeds from the Bay Restoration Fund grant.

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Total Sewer Fund Debt Principal	5,477,559
Net unamortized bond premium	84,641
	5,562,200
Total Sewer Fund	5,562,200
Total Business-type Activities	6,045,474
Total Long-term Debt	\$ 6,701,728

The following is a summary of activity charged to interest expense for the year ended June 30, 2018:

	Governmental Activities	Business-type Activities	Water Fund	Sewer Fund
Interest expense	\$ 14,464	\$ 243,632	\$ 14,173	\$ 243,632
Amortization of bond premium	-	(2,919)	-	(2,919)
	\$ 14,464	\$ 240,713	\$ 14,173	\$ 240,713

As part of the Local Government Infrastructure Bond obtained, the Town also incurred bond origination fees totaling \$101,683. These fees are included in the expenses of the Sewer Fund, which is the fund carrying the related debt.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018	Balance Due Within One Year
Governmental Activities					
Note Payable - MWQFA	\$ 108,500	\$ -	\$ 15,500	\$ 93,000	\$ 15,500
Loan Payable - BB&T	714,899	-	151,645	563,254	156,026
Total Governmental Activities*	823,399	-	167,145	656,254	171,526
Business-type Activities					
Water Fund					
Columbia Bank Loan	99,411	-	28,403	71,008	28,403
Note Payable - MDE	93,155	-	6,590	86,565	6,914
Note Payable - MDE	44,390	-	3,944	40,446	4,024
Note Payable - MDE	155,520	-	14,425	141,095	14,569
Note Payable - BB&T	172,994	-	28,834	144,160	28,833
Note Payable - BB&T	111,963	-	111,963	-	-
Total Water Fund	677,433	-	194,159	483,274	82,743
Sewer Fund					
Note Payable - MDE	49,989	-	6,930	43,059	6,999
Bond Payable - USDA	5,478,217	-	5,478,217	-	-
Bond Payable - CDA	-	5,537,670	103,170	5,434,500	123,500
Bond Payable - MDE	1,527,865	-	1,527,865	-	-
Total Sewer Fund	7,056,071	5,537,670	7,116,182	5,477,559	130,499
Total Business-type Activities*	7,733,504	5,537,670	7,310,341	5,960,833	213,242
Total Long-term Debt Principal*	\$ 8,556,903	\$ 5,537,670	\$ 7,477,486	\$ 6,617,087	\$ 384,768

* Does not include net unamortized bond premium. For the year ended June 30, 2018, unamortized bond premiums totaled \$0 for governmental activities and \$84,641 for business-type activities.

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

The aggregate annual payments on the foregoing long-term debt for the years ending June 30 are as follows:

	Governmental Activities		Business-type Activities		Water Fund		Sewer Fund	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 171,526	\$ 11,549	\$ 213,242	\$ 194,775	\$ 82,743	\$10,365	\$ 130,499	\$ 184,410
2020	176,035	7,782	216,886	190,376	83,317	8,567	133,569	181,809
2021	180,675	3,906	206,348	185,981	69,708	6,836	136,640	179,145
2022	97,018	970	195,332	181,968	56,121	5,550	139,211	176,418
2023	15,500	-	198,534	177,947	56,751	4,307	141,783	173,640
2024-2028	15,500	-	860,491	831,174	134,634	9,723	725,857	821,451
2029-2033	-	-	826,000	711,103	-	-	826,000	711,103
2034-2038	-	-	969,000	567,237	-	-	969,000	567,237
2039-2043	-	-	1,165,000	370,008	-	-	1,165,000	370,008
2044-2047	-	-	1,110,000	114,575	-	-	1,110,000	114,575
	<u>\$ 656,254</u>	<u>\$ 24,207</u>	<u>\$ 5,960,833</u>	<u>\$ 3,525,144</u>	<u>\$483,274</u>	<u>\$45,348</u>	<u>\$5,477,559</u>	<u>\$3,479,796</u>

Note: Principal amounts do not include net unamortized bond premium.

10. RETIREMENT PLAN

The Mayor and Council of Boonsboro Employee Pension Plan, administered by the Town, provides pension benefits for all of the Town's full-time employees through a defined contribution plan. Plan provisions and contribution requirements are established and may be amended by the Town. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after completing six months of employment. The Town's contributions for each employee (and income allocated to the employee's account) are fully vested after seven years' continuous service. Partial vesting begins after three years of service. The Town is obligated to contribute 7% of the employees' wages and the employee has the option to contribute to the plan. Contributions and earnings forfeited by employees who leave employment before seven years of service are used to reduce the Town's current-period contribution requirement. As of June 30, 2018, the Town has 22 full-time and part-time employees with 19 employees participating in the plan. The employees of the Town made no contributions. The Town's contribution for fiscal year 2018 was \$57,221.

11. DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

12. BOONSBORO / KEEDYSVILLE WATER FILTRATION PROJECT

The Town of Boonsboro (Boonsboro) and the Town of Keedysville (Keedysville) own various water systems that jointly serve customers of both Boonsboro and Keedysville (Towns). The State of Maryland required that the water systems be upgraded, thus during the 1999 fiscal year the Towns undertook a major water system upgrade project that included three phases:

- Two filtration plants, one in Boonsboro and one in Keedysville,
- Replacement of an eight inch water main between the Towns,
- Installation of new water meters in Keedysville along with a retrofit of existing meters in Boonsboro

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

The project was completed in 2002 with funding coming in the form of the following grants and loans with the State of Maryland, along with self-funding:

- \$ 168,000 Loan
- \$1,335,085 Loan
- \$1,442,000 Grant

The Towns entered into an agreement that permits Boonsboro to be the named borrower and grantee on all of the above funding sources; but Keedysville will own the plant, meters and line which is in their corporate limits. In addition to the above, the Towns agreed that during the period until the project loans are paid in full, Boonsboro is to be the Project Administrator, Water System Operator and will be performing all meter-reading, billing and collection service to all of the water users. During this period the Towns also desired to have a uniform water service user rate for all customers, and agreed to establish a uniform rate for debt repayment based on estimated usage. Under the agreement, Boonsboro shall have a security interest in and right of offset against Keedysville's accounts receivable for water service and loan repayment, for the purpose of repayment of the Project loans.

Under the billing arrangement, Boonsboro reflects the following transactions on their books, as billed on a quarterly basis:

- Boonsboro residents' water charges
- Boonsboro residents' debt service charges
- Keedysville residents' debt service charges
- Keedysville administrative charges

13. CONTINGENCIES

In the normal course of operation, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the grant of funds. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

14. COMMITMENTS

The new wastewater treatment plant (WWTP) was completed with the help of USDA and MDE to comply with Maryland requirements. The project had a total cost of \$12,047,600 with \$7,991,000 of costs of the project funded through bonds (Note 9) and \$3,610,600 of costs funded through grants. The USDA funding also required obtaining signed developer agreements, secured by letters of credit that would cover the first 5 years of debt service and provide for guaranteed minimum annual hookup fees, irrespective of the economic cycle (Note 15).

15. AGREEMENTS WITH DEVELOPERS

The Town of Boonsboro has entered into agreements with several developers, under which the Town has agreed to pay for some costs (annexation expenses, legal fees, engineering fees) with the understanding that the costs will be reimbursed by the developers. Billings to the developers are generally done on a semi-annual basis. The Town expenses the costs in the year in which they were paid and recognizes revenue when cash is received, or when the amounts are considered fully collectible.

During the year ended June 30, 2009, the Town entered into agreements with several developers, under which the Town has agreed to provide an allocated amount of sewer taps which have been guaranteed by the developers and will pay for the first 5 years of debt service related to the construction of the WWTP (Note 14). These agreements provide for a specific

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

number of taps to be earned by paying the debt service payments timely over the next five years and then an additional predetermined number of taps will be available to the developer. As described in Note 16, an allowance for doubtful accounts has been established as of June 30, 2018.

Included in the Statement of Net Position is unearned revenue related to these tap fees totaling \$690,445 for the year ended June 30, 2018. This will be recognized as revenue when the developers begin to utilize the taps. During the year ended June 30, 2018, the Town recognized \$278,988 of tap fee revenue that had previously been unearned.

16. RISKS AND VULNERABILITY

As disclosed in Notes 14 and 15, the Town obtained signed developer agreements covering the debt service of a new wastewater treatment plant for the first 5 years beginning in 2009. These agreements provide a specific number of taps in exchange for the developers paying the debt service payments timely, and an additional predetermined number of taps will be available for purchase by the developer. The construction loans that were obtained by the Town of Boonsboro are for 40 and 20 year terms and thus debt service payments will be required for a longer period than the five years agreed to in the agreements. If the developers purchase all taps available, the debt will be entirely funded by these agreements. In the current economic climate, it is at least reasonably possible that the developers may not purchase the additional taps.

As of June 30, 2018, the Town has \$594,723 of other receivables recorded related to payments owed by the developers. At this point in time, it appears unlikely that the Town will be able to collect amounts owed by the developers based on the history of payments to date. Because of these reasons, the Town has established an allowance for doubtful accounts of \$594,723 offsetting the amounts owed by the developers. This has minimal effect on the statement of activities as amounts receivable for tap fees are recorded as unearned revenue on the statement of net position.

In the current fiscal year, the Town raised sewer rates to help fund its debt payments related to the wastewater treatment plant. Additionally, the Town refinanced the USDA loan (Note 9) and obtained a \$2 million grant from Maryland Department of the Environment to assist with debt service payments.

17. CONDUIT DEBT OBLIGATION

During the year ended June 30, 2016, the Town issued Economic Development Revenue Bonds in the amount of \$1,436,177 to provide assistance to the Humane Society of Washington County (Organization) for the acquisition and improvement of its operating facilities. The bonds are secured by the property financed and are payable solely from payments received on the underlying financing agreement. Upon repayment of the bonds, ownership of the acquired facilities transfers to the Organization served by the bond issuance. Neither the Mayor and Council of Boonsboro, MD, nor any public body thereof is obligated in any manner for repayment of the bonds. In accordance with the Governmental Accounting Standards Board, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2018, the Economic Development Revenue Bonds outstanding had an aggregate principal amount payable of \$1,295,907.

18. RECENT GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing of recognition and measurement of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). Additionally, the Statement establishes disclosure requirements related to those AROs. This Statement is effective for reporting periods beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments and requires that activities meeting the criteria be reported in a

BOONSBORO MAYOR AND COUNCIL

NOTES TO FINANCIAL STATEMENTS

fiduciary fund in the basic financial statements. This Statement is effective for reporting periods beginning after December 15, 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liabilities and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting period beginning after December 15, 2019.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in the notes to government financial statements by requiring additional essential information related to debt including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default or termination with finance-related consequences and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement supersedes the current accounting guidance and requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement is effective for reporting period beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization by clarifying when that interest should be reported as an investment or as a component unit. This Statement is effective for reporting periods beginning after December 15, 2018.

The Town has not yet completed the process of evaluating the impact of these GASB Statements on its financial statements.

19. SUBSEQUENT EVENTS

The Town has evaluated events and transactions subsequent to June 30, 2018 through February 4, 2019, the date these financial statements were available to be issued. Based on the definitions and requirements of accounting principles generally accepted in the United States of America, management has not identified any events that have occurred subsequent to June 30, 2018 through February 4, 2019, that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30,

2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
REVENUES			
LOCAL TAXES			
Real property	\$ 1,007,202	\$ 1,049,038	\$ 41,836
Personal property - incorporated	70,000	107,300	37,300
Personal property - unincorporated	4,500	4,306	(194)
Penalties and interest	2,500	3,634	1,134
Less: discounts and abatements	(13,500)	(13,750)	(250)
	1,070,702	1,150,528	79,826
LICENSES AND PERMITS			
Trader's	3,500	5,325	1,825
Alcohol and beverage	500	-	(500)
Planning and zoning	27,800	28,139	339
	31,800	33,464	1,664
GRANTS AND SHARED TAXES			
State of Maryland			
Income tax	315,000	352,974	37,974
Admissions and amusement	10,000	7,814	(2,186)
Highway tax	121,617	121,758	141
Grant for police protection	30,373	31,176	803
Other grants and shared taxes	60,000	25,779	(34,221)
Washington County			
Grant in lieu of tax on financial corporations	950	951	1
Grant in lieu of tax on elderly housing	4,000	(2,406)	(6,406)
Hotel/motel tax	28,000	31,268	3,268
Parking fines	300	261	(39)
	570,240	569,575	(665)
SANITATION CHARGES			
Charges for service	100,000	105,581	5,581
MISCELLANEOUS			
Interest income	15,000	19,484	4,484
Rental income	9,500	11,435	1,935
Cable TV franchise fees	21,000	22,079	1,079
Miscellaneous income	500	21,793	21,293
	46,000	74,791	28,791
TOTAL REVENUES	\$ 1,818,742	\$ 1,933,939	\$ 115,197

**There were no significant budget amendments made during the fiscal year; therefore, the budget column shown is the original and final budget.*

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30,

2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
EXPENDITURES			
GENERAL GOVERNMENT			
MAYOR AND COUNCIL			
Mayor salary	\$ 3,600	\$ 3,600	\$ -
Council salary	7,200	7,200	-
MML dues	3,500	3,524	24
Education stipend	7,000	2,752	(4,248)
Contributions and donations	1,000	550	(450)
	22,300	17,626	(4,674)
ADMINISTRATION			
Administration salaries	97,000	83,454	(13,546)
Treasurer salary	1,000	1,000	-
Training	500	894	394
Advertising	1,500	2,349	849
Postage	3,500	2,355	(1,145)
Office expenses	10,650	14,556	3,906
Telephone	4,500	5,327	827
	118,650	109,935	(8,715)
PROFESSIONAL SERVICES			
Attorney fees	10,000	18,637	8,637
Audit service	8,800	6,225	(2,575)
Retirement administration	750	650	(100)
	19,550	25,512	5,962
MUNICIPAL BUILDING AND GROUNDS			
Maintenance	40,000	54,347	14,347
Heating and electric	19,000	33,249	14,249
	59,000	87,596	28,596
OPERATIONS			
Elections	1,000	1,378	378
Planning, zoning and engineering	13,800	19,033	5,233
Economic development commission	19,200	10,389	(8,811)
Environmental commission	10,000	4,417	(5,583)
	\$ 44,000	\$ 35,217	\$ (8,783)

**There were no significant budget amendments made during the fiscal year; therefore, the budget column shown is the original and final budget.*

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30,

2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
PUBLIC SAFETY			
POLICE DEPARTMENT			
Salaries	\$ 307,818	\$ 268,946	\$ (38,872)
Equipment	18,000	9,200	(8,800)
Uniforms	2,500	619	(1,881)
Supplies	2,000	2,498	498
Telephone	6,600	6,354	(246)
Building maintenance and utilities	12,000	7,912	(4,088)
Training	2,000	1,213	(787)
Vehicle maintenance	6,000	13,266	7,266
Vehicle gas	15,000	11,942	(3,058)
	371,918	321,950	(49,968)
PUBLIC OUTREACH			
Police and public safety committee meetings	960	470	(490)
Night Out program	1,250	958	(292)
PSC special projects	2,500	-	(2,500)
	4,710	1,428	(3,282)
VOLUNTEER COMPANY CONTRIBUTIONS			
Fire department	23,000	23,000	-
Fire hydrants	7,000	11,200	4,200
Ambulance service	23,000	23,000	-
	53,000	57,200	4,200
HIGHWAYS AND STREETS			
Salaries	69,000	81,444	12,444
Uniforms	2,000	1,730	(270)
Telephone	3,000	1,712	(1,288)
Street lighting	52,000	52,037	37
Supplies and small equipment	12,000	7,592	(4,408)
Cleaning and debris	11,900	11,560	(340)
Snow removal	11,500	17,064	5,564
Street maintenance	12,500	2,133	(10,367)
Vehicle and equipment maintenance	20,000	12,617	(7,383)
Vehicle gas	11,000	12,359	1,359
	204,900	200,248	(4,652)
SANITATION			
Sanitation and recycling	\$ 170,000	\$ 183,115	\$ 13,115

**There were no significant budget amendments made during the fiscal year; therefore, the budget column shown is the original and final budget.*

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30,

2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
PARKS, RECREATION AND EVENTS			
Salaries	\$ 960	\$ 830	\$ (130)
Park equipment	1,500	22,857	21,357
Facilities maintenance	10,000	33,074	23,074
Grounds maintenance	15,000	22,424	7,424
Events	14,550	11,270	(3,280)
	42,010	90,455	48,445
NON-DEPARTMENTAL EXPENDITURES			
Insurance	15,000	19,688	4,688
Health insurance	100,000	68,145	(31,855)
Retirement	40,000	25,032	(14,968)
Workers compensation	15,000	17,846	2,846
Payroll taxes	40,000	47,636	7,636
Contingency fund	2,087	5,658	3,571
Miscellaneous	4,500	1,187	(3,313)
	216,587	185,192	(31,395)
CAPITAL OUTLAY			
Street, drainage and overlay	121,617	-	(121,617)
National Road Heritage Museum	15,000	-	(15,000)
Shafer Park	60,000	37,921	(22,079)
Vehicles and equipment	17,500	17,258	(242)
Police department	5,000	-	(5,000)
	219,117	55,179	(163,938)
DEBT RETIREMENT			
Interest expense	-	14,464	14,464
Park expansion principal	165,000	151,644	(13,356)
Mortgage principal	15,500	15,500	-
	180,500	181,608	1,108
TOTAL EXPENDITURES	1,726,242	1,552,261	(173,981)
OTHER FINANCING SOURCES (USES)			
Subsidy to Sewer Fund	(92,500)	-	92,500
EXCESS OF REVENUE OVER EXPENDITURES	\$ -	\$ 381,678	\$ 381,678

**There were no significant budget amendments made during the fiscal year; therefore, the budget column shown is the original and final budget.*

OTHER SUPPLEMENTARY INFORMATION

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – WATER UTILITY FUND (BUDGETARY BASIS)

Year ended June 30,

2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
OPERATING REVENUES			
Charges for services	\$ 648,706	\$ 641,621	\$ (7,085)
Charges for administration	66,260	62,058	(4,202)
TOTAL OPERATING REVENUES	714,966	703,679	(11,287)
OPERATING EXPENSES			
Advertising	500	518	18
Capital outlay	65,876	16,160	(49,716)
Chemicals	15,000	9,950	(5,050)
Communications	6,000	-	(6,000)
Contingency fund	45,425	55	(45,370)
Health insurance	40,000	68,746	28,746
Meetings	1,200	1,230	30
Miscellaneous	100	998	898
Payroll taxes	19,000	19,279	279
Postage	3,000	2,000	(1,000)
Professional services	6,500	15,346	8,846
Property insurance	7,000	6,381	(619)
Repairs and maintenance	70,000	78,490	8,490
Retirement	15,000	16,094	1,094
Salaries	248,000	252,651	4,651
Supplies	11,500	13,443	1,943
Telephone	-	5,976	5,976
Testing	1,000	775	(225)
Tools and equipment	10,000	897	(9,103)
Training and certification	2,000	1,803	(197)
Uniforms	2,500	2,742	242
Utilities	56,500	46,949	(9,551)
Vehicles	10,000	6,183	(3,817)
Water meters	-	62,047	62,047
Worker's compensation	11,000	8,923	(2,077)
TOTAL OPERATING EXPENSES	647,101	637,636	(9,465)
OPERATING INCOME (LOSS)	67,865	66,043	(1,822)
OTHER INCOME (EXPENSE)			
Debt service fees	20,000	23,944	3,944
Connection fees	-	210,000	210,000
Other income	11,700	150	(11,550)
Interest income	-	4,982	4,982
Interest expense	(12,900)	(14,173)	(1,273)
Debt service (principal payments)	(86,665)	(194,158)	(107,493)
TOTAL OTHER INCOME (EXPENSE)	(67,865)	30,745	98,610
NET INCOME	\$ -	\$ 96,788	\$ 96,788

**There were no significant budget amendments made during the fiscal year; therefore, the budget column shown is the original and final budget.*

BOONSBORO MAYOR AND COUNCIL

STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL - SEWER UTILITY FUND (BUDGETARY BASIS)

Year ended June 30,

2018

	BUDGET	ACTUAL	ACTUAL OVER (UNDER) BUDGET
OPERATING REVENUES			
Charges for services	\$ 1,129,260	\$ 979,729	\$ (149,531)
Grants	-	30,000	30,000
TOTAL OPERATING REVENUES	1,129,260	1,009,729	(119,531)
OPERATING EXPENSES			
Advertising	500	1,714	1,214
Biosolids removal	140,000	165,826	25,826
Capital outlay	167,500	16,160	(151,340)
Chemicals	55,000	56,886	1,886
Communications	4,500	-	(4,500)
Contingency fund	36,077	-	(36,077)
Health insurance	55,000	68,746	13,746
Meetings	1,200	1,230	30
Miscellaneous	500	1,084	584
Payroll taxes	19,000	19,016	16
Postage	1,500	2,044	544
Professional services	6,500	13,685	7,185
Property insurance	30,000	25,174	(4,826)
Repairs and maintenance	130,000	75,935	(54,065)
Retirement	15,000	16,094	1,094
Salaries	248,000	249,035	1,035
Supplies	8,500	10,254	1,754
Telephone	-	4,392	4,392
Testing	27,000	28,788	1,788
Tools and equipment	5,000	1,619	(3,381)
Training and certification	1,000	1,115	115
Uniforms	2,000	2,742	742
Utilities	62,000	100,148	38,148
Vehicles	6,000	6,040	40
Worker's compensation	11,000	8,923	(2,077)
TOTAL OPERATING EXPENSES	1,032,777	876,650	(156,127)
OPERATING INCOME (LOSS)	96,483	133,079	36,596
OTHER INCOME (EXPENSE)			
Connection fees	-	289,988	289,988
Grants	-	2,000,000	2,000,000
Other income	500	959	459
Interest income	300	1,844	1,544
Interest expense	(1,000)	(243,632)	(242,632)
Debt service (principal payments)	(442,423)	(7,116,183)	(6,673,760)
Debt origination fees	-	(101,683)	(101,683)
Proceeds from debt refinance	-	5,625,230	5,625,230
Subsidy from general fund for operations	92,500	-	(92,500)
Subsidy from general fund for debt	253,640	-	(253,640)
TOTAL OTHER INCOME (EXPENSE)	(96,483)	456,523	553,006
NET INCOME	\$ -	\$ 589,602	\$ 589,602

**There were no significant budget amendments made during the fiscal year; therefore, the budget column shown is the original and final budget.*

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

Boonsboro Mayor and Council

Boonsboro, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the **Boonsboro Mayor and Council ("the Town")** 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, and have issued our report thereon dated February 4, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we considered to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-01 through 2018-04 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-05 to be a significant deficiency.

Compliance and Other Matters

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

The Town's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subject to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

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

Albright Crumbacker Moul & Itell LLC

Hagerstown, Maryland
February 4, 2019

BOONSBORO MAYOR AND COUNCIL

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2018-01

Material Weakness in Internal Control Over Financial Reporting—Cash Accounts Under-Collateralized at Year End

Criteria: All cash and investments held by financial institutions must be secured through the Federal Deposit Insurance Corporation (FDIC) or by securities pledged by the financial institution.

Condition: The Town has several accounts at two financial institutions that when combined are under-collateralized by approximately \$1,420,000. This amount approximates 40% of the impacted balances and 30% of the combined balances at all financial institutions.

Effect or Potential Effect: There is a risk that the under-collateralized balances may not be returned to the account holder, should such an action become necessary, because the affected accounts are not covered under FDIC or other pledged securities.

Cause: Adequate oversight was not in place to ensure all bank accounts were secured through the FDIC or other pledged securities.

Recommendation: We recommend that the Town periodically review all account balances to ensure they are appropriately secured at all times.

Responsible Official's Response: Mayor and Council became aware of the under collateralized position and is correcting it subsequent to year end.

Finding 2018-02

Material Weakness in Internal Control Over Financial Reporting—Approval of Journal Entries

Criteria: During our documentation of internal control processes and our testing of a selection of journal entries posted throughout the year, we noted that there is no independent review and approval of journal entries performed.

Condition: During our inquiries of Town personnel and testing of a selection of journal entries, we noted that there is no independent review and approval of accounting entries prepared and posted to the general ledger by Town personnel.

Effect or Potential Effect: The financial statements could have been misstated or incomplete. The Town's internal control system alone may not have identified this.

Cause: There is no independent review and approval of journal entries.

BOONSBORO MAYOR AND COUNCIL

SCHEDULE OF FINDINGS AND RESPONSES

Recommendation: The Town should consider assigning someone independent of the person preparing and posting journal entries to review them for accuracy and approve their posting. This review and approval should be done timely and in conjunction with month/year-end closing procedures.

Responsible Official's Response: Mayor and Council are aware of the deficiency, which has not been corrected for many years, and is the result of a lack of written policies and procedures. The Treasurer has observed the need for internal controls and defined procedures. The Mayor and Council will review the accounting processes and recommend written procedures to be adopted by the Town. Mayor and Council will further provide the necessary training and direction to Town management and staff to assure understanding and compliance.

Finding 2018-03

Material Weakness in Internal Control Over Financial Reporting—Closing Process

Criteria: During our audit we noted the closing process for the year to be incomplete or inaccurate. It is essential that the Town's closing process be complete and accurate to facilitate accurate financial statements. Audit adjustments were necessary for balances to be properly reflected in the financial statements.

Condition: During our audit we noted several areas where information was recorded incorrectly or not at all, or transactions were conducted outside of generally accepted accounting principles:

- Refinance of USDA loan with Infrastructure bond not recorded to the Town's general ledger;
- Loan principal payments expensed (in loan principal expense accounts for water / sewer funds and in loan interest for the general fund) versus being posted to the respective loan accounts per generally accepted accounting principles;
- Accrual adjustments not recorded for accrued wages, pension, and compensated absences (and, in some cases, prior year journal entries reversed improperly);
- Prepaid / deferred tap fees (sewer fund) not recognized as revenue when used;
- Fixed asset acquisitions expensed rather than capitalized per generally accepted accounting principles; and
- disposal of fixed assets not recorded.

BOONSBORO MAYOR AND COUNCIL

SCHEDULE OF FINDINGS AND RESPONSES

Effect or Potential Effect: The financial statements could have been misstated or incomplete. The Town's internal control system alone may not have identified this. Additionally, any reports provided to the Mayor and Council or outside parties may be unreliable. The total impact of audit adjustments as a result of these errors was:

- Increase to total assets of approximately \$30,500;
- Decrease to total liabilities of approximately \$327,000;
- Increase to total revenues of approximately \$253,000;
- Decrease to total expenditures of approximately \$102,000; and
- Increase to total change in net position of approximately \$355,000.

Cause: The Town did not record entries, recorded entries incorrectly, and / or did not reconcile various accounts properly.

Recommendation: The Town should ensure that the closing process is conducted in a complete and accurate manner. Including, but not limited to, multi-person reviews and sign-offs of reconciliations and month/year-end financials.

Responsible Official's Response: Mayor and Council are aware of the deficiency, which has not been corrected for many years, and is the result of a lack of written policies and procedures. The Treasurer has observed the need for internal controls and defined procedures. The Mayor and Council will review the accounting processes and recommend written procedures to be adopted by the Town. Mayor and Council will further provide the necessary training and direction to Town management and staff to assure understanding and compliance.

Finding 2018-04

Material Weakness in Internal Control Over Financial Reporting—Reconciliations and Subledgers

Criteria: During our audit we noted the various subledgers were not reconciled to the general ledger.

Condition: During our audit we noted several subledgers that were not reconciled to the general ledger:

- Accounts payable subledger was not reconciled to the general ledger; fiscal year end subledger for the general fund did not agree to the balance per trial balance / general ledger; and
- Accounts receivable per the water / sewer billing software was not reconciled to the general ledger and the total outstanding per the billing software did not agree to the balance per trial balance / general ledger.

BOONSBORO MAYOR AND COUNCIL

SCHEDULE OF FINDINGS AND RESPONSES

Effect or Potential Effect: The financial statements could have been misstated or incomplete. The Town's internal control system alone may not have identified this. Additionally, any reports provided to the Mayor and Council or outside parties may be unreliable.

Cause: The Town did not conduct proper or timely reconciliations of subledger accounts to the general ledger.

Recommendation: The Town should ensure that, as a part of the closing process, all subledgers are reconciled monthly and appropriate adjustments are recorded, if necessary. In addition, the Town should ensure that a proper review is conducted of all reconciliations including, but not limited to, multi-person reviews and sign-offs of reconciliations and month/year-end financials.

Responsible Official's Response: Mayor and Council are aware of the deficiency, which has not been corrected for many years, and is the result of a lack of written policies and procedures. The Treasurer has observed the need for internal controls and defined procedures. The Mayor and Council will review the accounting processes and recommend written procedures to be adopted by the Town. Mayor and Council will further provide the necessary training and direction to Town management and staff to assure understanding and compliance.

Finding 2018-05

Significant Deficiency in Internal Control Over Financial Reporting—Missing Loan Documents

Criteria: During our audit we noted that various original loan documents were not available for our review.

Condition: During our audit we observed that several loan documents required for testing and for audit records were not available at the Town office. We were however able to obtain those documents via other sources and were able to complete our testing.

Effect or Potential Effect: The Town could be exposed to covenant violations, monitoring issues, and potentially inaccurate analysis of financing options, if the Town were to decide to refinance a loan (prepayment penalties, etc.)

Cause: The Town did not maintain appropriate documentation to support various loans.

Recommendation: The Town should make certain that all original loan documents, contracts, official agreements, etc. are maintained and available for review.

Responsible Official's Response: Mayor and Council acknowledge this deficiency and will work with Town management and staff to establish permanent record filing and safekeeping procedures.

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