

MAYOR AND COUNCIL OF BOONSBORO
FINANCIAL REPORT
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Mayor and Council of Boonsboro
Boonsboro, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Mayor and Council of Boonsboro as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mayor and Council of Boonsboro's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Mayor and Council of Boonsboro as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012, on our consideration of the Mayor and Council of Boonsboro'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mayor and Council of Boonsboro's financial statements as a whole. The budgetary comparison information for the water and sewer funds on pages 38 and 39 are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The budgetary comparison information for the water and sewer funds 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.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
November 12, 2012

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
the Year Ended June 30, 2012
Unaudited*

The management of the Town of Boonsboro provides the following information as an introduction, overview, and analysis of the Town's financial statements for the year ended June 30, 2012. Readers should also review the basic financial statements on pages 9-34 to further enhance their understanding of the Town's financial performance.

Financial Highlights – Government- Wide Financial Statements

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$12,067,062. The net assets of the governmental activities were \$5,181,735 and the combined net assets of business-type activities were \$6,885,327. Of the combined net assets of the governmental activities, \$2,372,473 may be used to meet the Town's ongoing obligations to citizens and creditors.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can first understand the Town of Boonsboro as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities (referred to collectively as the government-wide statements) provide information about the activities as an entire operating entity, presenting both an aggregate view of the Town's finances and a longer-term view of those assets and liabilities. Major fund statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The proprietary funds' statements are prepared on the same basis as the government-wide statements.

Reporting on the Town of Boonsboro as a Whole

Statement of Net Assets and Statement of Activities

The government-wide statements answer the question "How did the Town as a whole perform financially during FY 2012". They are prepared on the accrual basis of accounting, much the same way as for a private enterprise. This basis of accounting includes all assets and liabilities and takes into account all of the reporting year's revenues and expenses regardless of when the cash was received or paid.

- *The Statement of Net Assets.* This statement (page 9) reports all assets and liabilities of the Town as of June 30, 2012. The difference between total assets and total liabilities is reported as "net assets". Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This statement (page 10) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the Town for the year ended June 30, 2012. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the Town's various programs net of related revenues, as well as a separate presentation of revenues available for general purposes.

A more detailed explanation of these statements is found in Note 1 on pages 18-23 in the Notes to the Financial Statements.

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
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Unaudited*

Reporting on the Town of Boonsboro's Most Significant Funds

Fund financial statements

These statements provide financial position and results of the Town's major funds. A fund is an accounting entity created to account for a specific activity or purpose. Major funds of the Town of Boonsboro are the General Fund, Water Fund, and Sewer Fund. The creation of some funds is mandated by law and others are created by management to demonstrate financial compliance with budgetary or legal requirements. Funds are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

- *Government funds.* Governmental funds are used to account for "governmental-type" activities. Unlike the government-wide financial statements, governmental fund statements use a "flow of financial resources" measurement focus. That is to say, the operating statement of a governmental fund attempts to answer the question "Are there more or less resources that can be spent in the near future as a result of events and transactions of the reporting period?" Increases in spendable resources are reported in the operating statement as "revenues" or "other financing sources." Decreases in spendable resources are reported as "expenditures" or "other financing uses." We describe the differences between governmental funds and governmental activities (reported in the Statement of Net Assets and the Statement of Activities) in reconciliations presented beside the governmental fund financial statements on pages 12 and 14.

The Town of Boonsboro maintains one governmental fund. The governmental fund financial statements on pages 11 and 13 displays the general fund which is the only governmental fund of the Town. The general fund is also considered to be a major fund.

- *Proprietary Funds.* The Town has one type of proprietary funds: enterprise funds.

Enterprise funds – These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises for which either 1) the intent is that the costs (expenses, including depreciation) be recovered primarily through user charges, or 2) determination of net income is appropriate for management control, accountability or other purposes.

The Town of Boonsboro's Water and Sewer Funds are each considered to be major funds and are displayed separately in the proprietary fund statements on pages 15-17.

- *Fiduciary Funds.* The Town does not maintain any fiduciary funds.

Other Information

Notes to the basic financial statements

The notes provide additional and explanatory data. They are an integral part of the basic financial statements. The Notes to Financial Statements can be found on pages 18-34 of this report.

Required supplementary information

In addition to the basic financial statements and notes, this report also contains required supplementary information (RSI). RSI includes budgetary schedules for the general fund. This data is on pages 35-37 of this report.

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
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Unaudited

Other supplementary information

Budgetary schedules for the major enterprise funds are also presented on pages 38-39.

The Town of Boonsboro as a Whole

The following table presents condensed information on net assets as of June 30, 2012 and 2011.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percent Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
<u>Assets:</u>							
Current and other assets	\$ 3,272,777	\$ 2,895,721	\$ 1,490,748	\$ 1,836,388	\$ 4,763,525	\$ 4,732,109	1%
Capital assets	3,737,367	3,885,816	15,524,168	16,289,515	19,261,535	20,175,331	-5%
Total assets	<u>\$ 7,010,144</u>	<u>\$ 6,781,537</u>	<u>\$ 17,014,916</u>	<u>\$ 18,125,903</u>	<u>\$ 24,025,060</u>	<u>\$ 24,907,440</u>	
<u>Liabilities:</u>							
Other liabilities	\$ 142,447	\$ 136,628	\$ 1,247,716	\$ 1,134,301	\$ 1,390,163	\$ 1,270,929	9%
Long-term liabilities	1,685,962	1,701,500	8,881,873	9,173,985	10,567,835	10,875,485	-3%
Total liabilities	<u>\$ 1,828,409</u>	<u>\$ 1,838,128</u>	<u>\$ 10,129,589</u>	<u>\$ 10,308,286</u>	<u>\$ 11,957,998</u>	<u>\$ 12,146,414</u>	
<u>Net Assets:</u>							
Invested in capital							
assets, net of debt	\$ 2,051,405	\$ 2,184,316	\$ 6,583,415	\$ 7,056,650	\$ 8,634,820	\$ 9,240,966	-7%
Restricted - excise tax	85,193	82,506	-	-	85,193	82,506	3%
Restricted - WWTP	119,698	119,078	16,967	135,819	136,665	254,897	-46%
Restricted - BKRWB	-	-	439,592	378,479	439,592	378,479	16%
Restricted - Hotel/Motel tax	61,491	43,969	-	-	61,491	43,969	40%
Restricted - friends of Shafer Park	40,000	-	-	-	40,000	-	100%
Restricted - Shafer Park	296,828	82,501	-	-	296,828	82,501	260%
Unrestricted (Deficit)	2,527,120	2,431,039	(154,647)	246,669	2,372,473	2,677,708	-11%
Total net assets	<u>\$ 5,181,735</u>	<u>\$ 4,943,409</u>	<u>\$ 6,885,327</u>	<u>\$ 7,817,617</u>	<u>\$ 12,067,062</u>	<u>\$ 12,761,026</u>	

For governmental activities, the net assets reflect the retroactive reporting of reportable capital assets acquired prior to July 1, 2003. For business-type activities, the depreciable assets have always been reported.

The Town's net assets from governmental activities increased 5% from \$4,943,409 to \$5,181,735. Invested in capital assets net of related debt decreased \$132,911 due to depreciation of the existing assets and no new acquisition of debt. Unrestricted net assets increased \$96,081. The Town's assets increased 3% from \$6,781,537 to \$7,010,144 as a result of positive operating results in the general fund and maintaining higher cash and investment balances. Liabilities have decreased \$9,719 as a result of the general fund incurring no more debt as some major projects were completed in prior years and the repayment of principal on existing loans.

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis for
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The Town's net assets from business-type activities decreased 12% from \$7,817,617 to \$6,885,327. Invested in capital assets net of related debt decreased \$473,235 due to depreciation expense charged on the new wastewater treatment plant and the extension of the water main on Alternate Route 40. Unrestricted net assets decreased \$401,316 due to negative operating results for the sewer fund, the timing of funding, and the repayment of long-term debt. The Town's assets decreased 6% from \$18,125,903 to \$17,014,916 as a result of depreciation, specifically the new wastewater treatment plant and extension of the water main on Alternate Route 40, and the cash utilized to repay long-term debt.

The following table presents condensed information on the changes in net assets for the years ended June 30, 2012 and 2011.

Changes in Net Assets
June 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 118,071	\$ 126,134	\$ 1,070,166	\$ 1,136,880	\$ 1,188,237	\$ 1,263,014
Operating grants and contributions	55,873	16,373	-	-	55,873	16,373
Capital grants and contributions	17,919	-	-	-	17,919	-
General revenues:						
Income taxes	310,616	313,124	-	-	310,616	313,124
Property taxes	971,750	974,215	-	-	971,750	974,215
Other shared and local taxes and grants	80,072	90,119	-	-	80,072	90,119
Investment earnings	19,002	22,280	3,214	18,368	22,216	40,648
Miscellaneous income/(expenses)	19,749	20,144	13,580	28,062	33,329	48,206
Gain (Loss) on disposal of capital assets	1,108	(2,921)	-	-	1,108	(2,921)
Transfers	-	(33,426)	-	33,426	-	-
Total revenues	\$ 1,594,160	\$ 1,526,042	\$ 1,086,960	\$ 1,216,736	\$ 2,681,120	\$ 2,742,778
<u>Expenses</u>						
General government	\$ 499,293	\$ 519,658	\$ -	\$ -	\$ 499,293	\$ 519,658
Public safety	272,886	258,264	-	-	272,886	258,264
Highways and streets	251,049	273,476	-	-	251,049	273,476
Sanitation	184,086	175,352	-	-	184,086	175,352
Recreation and parks	148,520	149,716	-	-	148,520	149,716
Water	-	-	535,603	536,735	535,603	536,735
Sewer	-	-	1,483,647	1,441,087	1,483,647	1,441,087
Total expenses	\$ 1,355,834	\$ 1,376,466	\$ 2,019,250	\$ 1,977,822	\$ 3,375,084	\$ 3,354,288
Change in net assets	\$ 238,326	\$ 149,576	\$ (932,290)	\$ (761,086)	\$ (693,964)	\$ (611,510)

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
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Unaudited*

Governmental Activities – Change in Net Assets

Governmental activities increased the Town's net assets by \$238,326. Key elements of this increase are as follows:

- State shared income taxes exceeded budget by \$95,616. This is the result of an increase in MD taxes generated from income tax returns in the local area.
- Other grant funding exceeded budget by \$17,919 due to the receipt of \$17,919 for improvements to the police department building.
- Contingency fund expenses were under budget by \$88,377. The Town has been conservative in spending and has tried to only spend what was necessary.

Business-type Activities – Change in Net Assets

Business-type activities decreased the Town's net assets by \$932,290. Key elements of this decrease are as follows:

- The Town completed construction of a new wastewater treatment plant and extend water lines on Alternate Route 40 in FY10 and therefore did not receive any capital grants and contributions in FY2012.
- Operating expenses for the sewer fund exceeded budget by \$44,314 due to unexpected repairs that were needed for the new wastewater treatment plant and increased costs of operation.
- Charges for services decreased 6%, or \$66,714 due to decreases in the usage in FY2012.

Financial Analysis of the Government's Fund Financial Statements

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, fund balance is generally a good indicator of net resources available for spending at the end of the fiscal year, subject to any stated restrictions on its use.

As of the end of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$3,130,330, an increase of \$371,237. Approximately 78% of this total amount (\$2,445,280) constitutes the unassigned fund balance, which is available for spending at the government's discretion.

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The fund balance of the proprietary funds are the same on the fund basis as they are in the government-wide financial statements.

Budgetary Highlights

Tax revenue remains the primary financial resource to meet the monetary operating obligations with real property tax revenues increasing only at the proposed Constant Yield Tax Rate. Reductions in State funding to local governments resulted in a 78% reduction in Highway User Revenues and State Aid for Police Protection continuing at 65%.

The postponement of new Capital Improvement projects, conservative spending measures and focus on debt reduction, resulted in additional net revenues and an increase in the Town's assets in FY 2012.

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
the Year Ended June 30, 2012*
Unaudited

Capital Asset and Debt Administration – Government-Wide Statement

Capital asset activity

The Town's investment in capital assets for its governmental and business type activities as of June 30, 2012, amounted to \$19,261,535 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and sewer improvements, equipment, park facilities, and projects under construction. The total additions to the Town's investment in capital assets for the current fiscal year was \$78,386 for the governmental funds and \$63,114 for the business-type activities.

Additional information on the Town's capital assets can be found in the notes, on pages 25 and 26 of this report.

Debt Administration

The following table presents the Town of Boonsboro's outstanding debt owed to third parties, at June 30, 2012 and 2011.

	Governmental Activities		Business-Type Activities		Total Outstanding Debt		% Change
	2012	2011	2012	2011	2012	2011	
Loans outstanding	\$ 1,685,962	\$ 1,701,500	\$ 8,707,240	\$ 8,986,044	\$ 10,393,202	\$ 10,687,544	-3%
General obligation bonds	-	-	174,633	187,941	174,633	187,941	-7%
Total debt	\$ 1,685,962	\$ 1,701,500	\$ 8,881,873	\$ 9,173,985	\$ 10,567,835	\$ 10,875,485	

Additional information on the long-term debt of the Town can be found in notes on pages 26-30 of this report.

Economic Factors and Next Year's Budgets and Rates

State and Federal financial support routinely received by the town during the fiscal year to help sustain essential services and programs is expected to continue at significant reductions, causing property tax revenue to remain 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 and will continue to be reviewed on an annual basis and may be reflected as necessary by adjusting quarterly 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 our citizens, taxpayers, customers, investors and creditors with an overview of the Town's finances. If you have any questions or need additional financial information, please contact the Town Manager, Town of Boonsboro, 21 N. Main Street, Boonsboro, MD 21713.

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current			
Cash	\$ 345,896	\$ 530,723	\$ 876,619
Cash - restricted - WWTP	119,698	-	119,698
Cash - restricted - Shafer Park	40,000	-	40,000
Certificates of deposit, including accrued interest	959,939	319,075	1,279,014
Investments	1,606,749	407,042	2,013,791
Receivables:			
Taxes	3,379	-	3,379
Sanitation service	16,946	-	16,946
Sewer service	-	134,491	134,491
Water service	-	155,950	155,950
Due from other governmental agencies	73,256	-	73,256
Other, net of allowance for doubtful accounts of \$290,496	-	14,009	14,009
Noncurrent			
Loans receivable/payable - other funds	58,880	(58,880)	-
Notes receivable	22,960	-	22,960
Infrastructure bond issue costs (net of amortization of \$17,572)	-	6,691	6,691
Loan issue costs (net of amortization of \$12,936)	-	6,721	6,721
Due to/from other funds	25,074	(25,074)	-
Capital assets, net of accumulated depreciation	3,737,367	15,524,168	19,261,535
TOTAL ASSETS	\$ 7,010,144	\$ 17,014,916	\$ 24,025,060
LIABILITIES			
Current			
Current maturities of long-term obligations	\$ 1,515,462	\$ 298,604	\$ 1,814,066
Matured bonds payable	-	697	697
Accounts payable	56,570	20,702	77,272
Deferred revenue - tap fees	-	1,137,211	1,137,211
Due to State of Maryland	-	24,791	24,791
Accrued interest	-	44,121	44,121
Other accrued expenses	52,677	19,894	72,571
Deposits	33,200	300	33,500
Noncurrent			
Note payable - MDE, net	-	116,577	116,577
Note payable - MWQFA, net	170,500	302,167	472,667
Note payable - MDE - Park View sewer rehabilitaiton, net	-	77,029	77,029
Note payable - MDE - Alt. 40 Extension	-	59,303	59,303
Note payable - MDE - Alt. 40 Extension #2	-	211,808	211,808
Bond payable - WWTP upgrade - USDA	-	5,765,621	5,765,621
Bond payable - WWTP upgrade - MDE	-	1,631,191	1,631,191
Note payable - Susquehanna - SHA Main St. Waterline	-	259,334	259,334
General obligation bonds payable, net	-	160,239	160,239
TOTAL LIABILITIES	\$ 1,828,409	\$ 10,129,589	\$ 11,957,998
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,051,405	\$ 6,583,415	\$ 8,634,820
Restricted - excise tax	85,193	-	85,193
Restricted - Shafer park expansion	296,828	-	296,828
Restricted - Hotel/Motel tax	61,491	-	61,491
Restricted - WWTP	119,698	16,967	136,665
Restricted - friends of Shafer park	40,000	-	40,000
Restricted - BKRWB	-	439,592	439,592
Unrestricted (deficit)	2,527,120	(154,647)	2,372,473
TOTAL NET ASSETS	\$ 5,181,735	\$ 6,885,327	\$ 12,067,062

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 311,568	\$ 36,902	\$ -	\$ -	\$ (274,666)	\$ -	\$ (274,666)
Public safety	272,886	1,020	15,873	17,919	(238,074)	-	(238,074)
Sanitation	184,086	73,449	-	-	(110,637)	-	(110,637)
Highways and streets	291,049	-	-	-	(251,049)	-	(251,049)
Recreation and parks	148,520	6,700	40,000	-	(101,820)	-	(101,820)
Non-departmental	187,725	-	-	-	(187,725)	-	(187,725)
Total governmental activities	\$ 1,355,834	\$ 118,071	\$ 55,873	\$ 17,919	\$ (1,163,971)	\$ -	\$ (1,163,971)
Business-type activities:							
Water	\$ 535,603	\$ 584,432	\$ -	\$ -	\$ -	\$ 48,829	\$ 48,829
Sewer	1,483,647	485,734	-	-	-	(997,913)	(997,913)
Total business-type activities	\$ 2,019,250	\$ 1,070,166	\$ -	\$ -	\$ -	\$ (949,084)	\$ (949,084)
Total primary government	\$ 3,375,084	\$ 1,188,237	\$ 55,873	\$ 17,919	\$ (1,163,971)	\$ (949,084)	\$ (2,113,055)
General revenues:							
Taxes:							
Income Taxes					\$ 310,616	\$ -	\$ 310,616
Property taxes, levied for general purposes					971,750	-	971,750
Other shared and local taxes and grants					80,072	-	80,072
Miscellaneous revenues					19,749	-	19,749
Licenses, permits and other fees					-	580	580
Rental income					-	13,000	13,000
Interest and investment earnings					19,002	3,214	22,216
Gain on disposal of capital assets					1,108	-	1,108
Total general revenues and transfers					\$ 1,402,297	\$ 16,794	\$ 1,419,091
Change in net assets					\$ 238,326	\$ (932,290)	\$ (693,964)
Net assets - beginning of year					4,943,409	7,817,517	12,761,026
Net assets - end of year					\$ 5,181,735	\$ 6,885,327	\$ 12,067,062

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

BALANCE SHEET
GOVERNMENTAL FUND

JUNE 30, 2012

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 345,896
Cash - restricted - WWTP	119,698
Cash - restricted - Shafer Park	40,000
Certificates of deposit	959,939
Investments	1,606,749
Accounts receivable	90,202
Taxes receivable	3,379
Loans receivable	81,840
Due from other funds	41,520
TOTAL ASSETS	<u>\$ 3,289,223</u>
 <u>LIABILITIES</u>	
Accounts payable	\$ 56,569
Accrued expenses	52,677
Deposits	33,200
Due to other funds	16,447
TOTAL LIABILITIES	<u>\$ 158,893</u>
 <u>FUND BALANCE</u>	
Nonspendable	\$ 81,840
Restricted	221,189
Committed	382,021
Unassigned	2,445,280
TOTAL FUND BALANCE	<u>\$ 3,130,330</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,289,223</u>

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

RECONCILIATION OF FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total Fund Balance - Governmental Funds \$ 3,130,330

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 as assets in the governmental funds. Capital assets
consist of:

Property, plant, equipment and infrastructure assets, net 3,737,367

Long-term liabilities, including notes payable, are not due and payable in the
current period, and therefore, are not reported in the funds:

Notes payable (1,685,962)

Total Net Assets - Governmental Activities \$ 5,181,735

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2012

	General Fund
<u>REVENUES</u>	
Local property taxes, net of discounts	\$ 971,750
Licenses and permits	36,362
Grants and shared taxes	425,500
Charges for services	73,449
Other revenue	85,991
TOTAL REVENUES	\$ 1,593,052
<u>EXPENDITURES</u>	
General government	\$ 270,255
Public safety	259,643
Highways and streets	199,712
Sanitation	184,086
Recreation and parks	28,995
Non-departmental expenditures	140,419
Capital outlay	78,386
Debt retirement - interest	47,306
Debt retirement - principal	15,538
TOTAL EXPENDITURES	\$ 1,224,340
EXCESS OF REVENUES OVER EXPENDITURES	\$ 368,712
<u>OTHER FINANCING SOURCES</u>	
Proceeds from sale of capital assets	2,525
NET CHANGE IN FUND BALANCE	\$ 371,237
<u>FUND BALANCE - BEGINNING OF YEAR</u>	2,759,093
<u>FUND BALANCE - END OF YEAR</u>	\$ 3,130,330

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net change in fund balances - Governmental Funds: \$ 371,237

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

Government funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 78,386

In the statement of activities, the total gain or loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from change in fund balance by the net book value of the assets sold. (1,417)

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (225,418)

The issuance of long-term debt 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. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 15,538

Change in Net Assets of Governmental Activities \$ 238,326

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Cash	\$ 497,160	\$ 33,563	\$ 530,723
Certificates of deposit, including accrued interest	200,683	118,392	319,075
Investments	234,035	173,007	407,042
Receivables:			
Sewer service	-	134,491	134,491
Water service	155,950	-	155,950
Other, net of allowance for doubtful accounts of \$290,496	-	14,009	14,009
Due from other funds	13,312	40,254	53,566
TOTAL CURRENT ASSETS	\$ 1,101,140	\$ 513,716	\$ 1,614,856
OTHER ASSETS			
Infrastructure bond issue costs (net of amortization of \$17,572)	\$ 6,691	\$ -	\$ 6,691
Loan issue costs (net of amortization of \$12,936)	6,721	-	6,721
	<u>\$ 13,412</u>	<u>\$ -</u>	<u>\$ 13,412</u>
FIXED ASSETS			
Property, plant and equipment	\$ 7,118,841	\$ 14,441,420	\$ 21,560,261
Less accumulated depreciation	(2,719,902)	(3,316,191)	(6,036,093)
	<u>\$ 4,398,939</u>	<u>\$ 11,125,229</u>	<u>\$ 15,524,168</u>
TOTAL ASSETS	\$ 5,513,491	\$ 11,638,945	\$ 17,152,436
LIABILITIES AND NET ASSETS			
LIABILITIES			
Matured bonds payable	\$ -	\$ 697	\$ 697
Accounts payable	3,494	17,208	20,702
Deferred revenue - tap fees	2,000	1,135,211	1,137,211
Deposits	-	300	300
Due to other funds	58,252	20,388	78,640
Due to State of Maryland	-	24,791	24,791
Accrued interest	10,459	33,662	44,121
Accrued compensated absences	3,876	3,931	7,807
Accrued pension expense	5,976	6,111	12,087
Note payable - Park View sewer rehabilitation	-	83,622	83,622
Loan payable - General Fund	-	58,880	58,880
Bond payable - WWTP upgrade - USDA	-	5,828,600	5,828,600
Bond payable - WWTP upgrade - MDE	-	1,724,774	1,724,774
Note payable - MDE	121,765	-	121,765
Note payable - MDE - Alt. 40 Extension	62,835	-	62,835
Note payable - MDE - Alt. 40 Extension #2	225,533	-	225,533
General obligation bonds payable	174,633	-	174,633
Note payable - Susquehanna - SHA Main St. Waterline	282,334	-	282,334
Note payable - MWQFA	377,777	-	377,777
TOTAL LIABILITIES	\$ 1,328,934	\$ 8,938,175	\$ 10,267,109
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,154,062	\$ 3,429,353	\$ 6,583,415
Restricted - WWTP	-	16,967	16,967
Restricted - BKRWB	439,592	-	439,592
Unrestricted (Deficit)	590,903	(745,550)	(154,647)
TOTAL NET ASSETS	\$ 4,184,557	\$ 2,700,770	\$ 6,885,327

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Charges for services	\$ 359,505	\$ 485,734	\$ 845,239
Charges for debt service	178,862	-	178,862
Charges for administration	41,665	-	41,665
Connection charges and other income	4,400	-	4,400
TOTAL OPERATING REVENUES	\$ 584,432	\$ 485,734	\$ 1,070,166
<u>OPERATING EXPENSES</u>			
Depreciation	\$ 162,917	\$ 665,544	\$ 828,461
Amortization expense	1,872	-	1,872
Advertising	1,504	1,504	3,008
Maintenance and repairs	58,466	66,691	125,157
Chemicals	12,609	52,959	65,568
Biosolids removal	-	118,169	118,169
Electricity	54,267	65,633	119,900
Heating	1,120	1,120	2,240
Telephone	4,039	3,384	7,423
Salaries	99,711	99,586	199,297
Insurance	10,934	29,633	40,567
Health insurance expense	31,326	30,523	61,849
Audit	5,773	5,773	11,546
Supplies	5,976	8,023	13,999
Miscellaneous	107	9,157	9,264
Uniforms	1,292	1,254	2,546
Professional memberships	1,027	657	1,684
Meeting expense	1,205	1,205	2,410
Payroll taxes	6,274	6,233	12,507
Pension expense	6,713	6,847	13,560
Postage	1,511	1,184	2,695
Testing	720	19,685	20,405
Truck expense	10,463	3,551	14,014
Equipment expense	-	456	456
Engineering fees	-	1,935	1,935
Legal fees	162	1,769	1,931
Loan costs	5,238	6,158	11,396
TOTAL OPERATING EXPENSES	\$ 485,226	\$ 1,208,633	\$ 1,693,859
OPERATING INCOME (LOSS)	\$ 99,206	\$ (722,899)	\$ (623,693)
<u>OTHER REVENUES AND (EXPENSES)</u>			
Interest expense	\$ (50,377)	\$ (275,014)	\$ (325,391)
Rental and other income	11,200	2,380	13,580
Interest income	2,204	1,010	3,214
TOTAL OTHER REVENUES AND (EXPENSES)	\$ (36,973)	\$ (271,624)	\$ (308,597)
CHANGE IN NET ASSETS	\$ 62,233	\$ (994,523)	\$ (932,290)
NET ASSETS - BEGINNING OF YEAR	4,122,324	3,695,293	7,817,617
NET ASSETS - END OF YEAR	\$ 4,184,557	\$ 2,700,770	\$ 6,885,327

The Notes to Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 585,829	\$ 828,100	\$ 1,413,929
Cash payments to suppliers for goods and services	(237,611)	(445,748)	(683,359)
Cash payments to employees for services	(98,944)	(98,889)	(197,833)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 249,274	\$ 283,463	\$ 532,737
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
(Increase) decrease in due from other funds	\$ 890	\$ (37,192)	\$ (36,302)
Increase in due to other funds	41,840	2,866	44,706
(Decrease) in due to State of Maryland	-	(848)	(848)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	\$ 42,730	\$ (35,174)	\$ 7,556
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (58,416)	\$ (4,698)	\$ (63,114)
Interest paid on bonds and notes payable	(52,239)	(275,765)	(328,004)
Principal payments on notes and bonds payable	(131,613)	(160,499)	(292,112)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (242,268)	\$ (440,962)	\$ (683,230)
CASH FLOW FROM INVESTING ACTIVITIES			
Rental and other income	\$ 11,200	\$ 2,380	\$ 13,580
Interest on cash and investments	2,204	1,010	3,214
Purchase of certificate of deposit	(1,810)	(591)	(2,401)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 11,594	\$ 2,799	\$ 14,393
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 61,330	\$ (189,874)	\$ (128,544)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	669,865	396,444	1,066,309
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 731,195	\$ 206,570	\$ 937,765
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 99,206	\$ (722,899)	\$ (623,693)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation and amortization	164,789	665,544	830,333
(Increase) decrease in receivables	1,397	(6,538)	(5,141)
Decrease in receivables - other	-	214,362	214,362
(Decrease) in accounts payable	(16,942)	(2,180)	(19,122)
(Decrease) in matured bonds payable	-	(1)	(1)
Increase in deferred revenue - tap fees	-	134,542	134,542
Increase in accrued expenses	824	633	1,457
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 249,274	\$ 283,463	\$ 532,737
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET ASSETS			
Cash	\$ 497,160	\$ 33,563	\$ 530,723
Investments - repurchase agreements	234,035	173,007	407,042
\$ 731,195	\$ 206,570	\$ 937,765	

The Notes to the Financial Statements are an integral part of this statement.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Financial Reporting Entity:

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

The accompanying financial statements are presented as of June 30, 2012 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

Reporting Entity:

The accompanying financial statements comply with the provisions of the GASB, in that the financial statements include all organizations, activities, functions and component units for which the Town (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the Town's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the Town.

Based on the foregoing, the Town's financial reporting entity includes all funds, and boards and commissions that are part of the primary government. There are no component units.

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Governmental fund financial statements include a reconciliation with explanations to identify the relationship between the governmental-wide statements and statements for governmental funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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

Governmental Fund Balances:

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually requires to be maintained intact. This classification includes items such as prepaid amounts, inventories, and loans and notes receivable.

Restricted: This classification includes amounts where the constraints placed on the use of resources are externally imposed by creditors, grantors, contributors or imposed by law through constitutional provisions or enabling legislation.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Mayor and Council of Boonsboro, Maryland. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action use to initially constrain the funds.

Assigned: For the General Fund, this classification includes amounts intended to be used for specific purposes that do not meet the criteria to be classified as Restricted or Committed. The assignment of fund balance cannot result in a negative unassigned fund balance. Mayor and Council of Boonsboro, Maryland delegates to the Town Manager the authority to assign fund balance.

Unassigned: This classification represents the portion of spendable fund balance that has not been categorized as Restricted, Committed or Assigned. 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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

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

Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

The government reports the following major proprietary funds:

The Water Utility Fund accounts for the activity of the Town's water distribution system.

The Sewer Utility Fund accounts for the activity of the Town's sewage treatment plant, sewage pumping stations and collection systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 government's water and sewer functions and various other functions of the government.

Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The proprietary funds also recognize as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources as they are needed.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and infrastructure items over \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. GASB Statement No. 34 requires the Town to report and depreciate new infrastructure assets effective with its implementation. Therefore, infrastructure assets acquired prior to July 1, 2003 are not included in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2012.

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

<u>Assets</u>	<u>Years</u>
Buildings	5-30
Machinery and equipment	5-40
Non-building improvements	10-40
Water filtration system	5-50
Water systems	10-50
Water treatment plant	5-50
Storm drainage and road improvements	10-50

Long-term Obligations:

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities fund type statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Use of Estimates in the Preparation of Financial Statements:

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

Budget:

The General Fund budget is prepared on the same basis as that used to account for the historical financial data in the fund statements (modified cash basis), except that a transfer from unappropriated surplus is sometimes budgeted as a revenue item. 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. Budget appropriations lapse at June 30 of each year.

There was no approved Capital Projects Fund budget. The Town budgets projects in the General Fund.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Amortization:

Bond issue costs are being amortized over the life of the infrastructure bonds, which is 30 years.

Loan issue costs are being amortized over the life of the water filtration loan, which is 20 years.

Real Estate and Property Taxes:

The Town's tax levy date for Real Estate and Personal Property taxes is July 1 of each year. These taxes are due and payable no later than September 30 of the tax year 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.

Statement of Cash Flows:

For the purposes of the statement of cash flows, the Water and Sewer Utility Funds have defined cash equivalents as all highly liquid deposits and other investment instruments that have an original maturity of three months or less. Certificates of deposit are not considered cash equivalents.

Concentrations of Credit Risk:

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.

Accounts Receivable:

The Town provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Receivables are generally due thirty (30) days after billed. 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. Based on management's review, an allowance for doubtful accounts is not considered necessary.

Investments:

Investments are stated at fair value based on quoted market values. Under the terms of repurchase agreements, the excess cash from checking accounts is invested in short-term investments. Short-term investments in U.S. Treasury and agency obligations that have a remaining maturity at the time of purchase of one year or less, provided that the fair value of those investments is not significantly affected by impairment, are reported at amortized cost, which approximates market value.

Taxes and Town Services:

The Town and its separate funds do not pay Federal, State, or local taxes except social security taxes. 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.

Rate of Town Taxes:

Real estate tax	\$.32 per \$100 of assessable base
Personal property tax	\$.81 per \$100 of assessable base

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information:

General government 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. All annual appropriations lapse at the fiscal year end.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

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. 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 approve expenditures not previously budgeted, the Town Manager amends the budget to better reflect comparison to actual results.

Note 3. Cash and Certificates of Deposit

At June 30, 2012, the carrying amount of the Town's deposits, including interest receivable, was \$2,315,331. The related bank balances totaled \$2,361,581, including accrued interest.

Following is a schedule of the Town's deposits by financial institution at June 30, 2012:

Susquehanna Bank	\$ 2,263,974
The Columbia Bank	9,705
Wells Fargo Advisors	<u>87,902</u>
	<u>\$ 2,361,581</u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government'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, 2012 \$2,013,974 of the Town's deposits were exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank not in the Town's name	<u>\$ 2,013,974</u>
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Note 4. Investments

As of June 30, 2012 the Town had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Repurchase agreements - Susquehanna Bank	Daily	<u>\$ 2,013,791</u>

The Town has no formal investment policy. It is the Town's policy to follow the rules as set forth by State statute.

The Mayor and Council have entered into an overnight repurchase agreement with a commercial bank. The repurchase agreement specifies that only U.S. Treasury securities will be sold by the bank. Therefore, the repurchase agreement is not subject to credit risk. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the Mayor and Council may invest in the following:

- Any obligation for which the United States has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a federal agency issues in accordance with an act of Congress.
- Repurchase agreements that any of these obligations secure.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments (Continued)

Custodial Credit Risk – Repurchase Agreement: The Bank has placed securities in safekeeping designated for repurchase agreements the Bank has entered into with the Mayor and Council and other customers. The securities are held in the Bank's name. The Mayor and Council are not party to the safekeeping contract. Therefore, the repurchase agreement is subject to custodial credit risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Note 5. Notes Receivable

The Town has two notes outstanding, two of which are non-interest bearing, with local organizations. The three notes are as follows:

- 2009 – South Mountain Little League
On April 6th, 2009, \$6,400 was due to the Town on a previous note which was provided to assist in the purchase and installation of stadium lights. During 2009, an additional \$26,000 was provided to assist in the purchase of equipment to provide a baseball field of adequate size for its Senior League program. The Town amended the original agreement and combined the previous note with the current agreement for a beginning loan balance of \$32,400. The loan is to be paid back over a five year period which began in April 2009. A balance of \$12,960 is outstanding at June 30, 2012.
- 2007 - Boonsboro Rescue Company
\$50,000 was provided to assist in the purchase of a new ambulance and ALS equipment. The loan is to be paid back, with interest at 3%, over a five year period which began in December 2007. A balance of \$10,000 is outstanding at June 30, 2012.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,070,146	\$ -	\$ -	\$ 1,070,146
Capital assets, being depreciated:				
Buildings	\$ 1,354,925	\$ 19,419	\$ -	\$ 1,374,344
Machinery and equipment	600,059	58,967	(5,000)	654,026
Storm drainage	522,548	-	-	522,548
Road improvements	616,753	-	-	616,753
Park and playground equipment	1,670,924	-	-	1,670,924
Subtotal	<u>\$ 4,765,209</u>	<u>\$ 78,386</u>	<u>\$ (5,000)</u>	<u>\$ 4,838,595</u>
Accumulated depreciation:				
Buildings	\$ (845,356)	\$ (30,737)	\$ -	\$ (876,093)
Machinery and equipment	(475,416)	(54,176)	3,583	(526,009)
Storm drainage	(391,414)	(5,363)	-	(396,777)
Road improvements	(80,917)	(32,651)	-	(113,568)
Park and playground equipment	(156,436)	(102,491)	-	(258,927)
Subtotal	<u>\$ (1,949,539)</u>	<u>\$ (225,418)</u>	<u>\$ 3,583</u>	<u>\$ (2,171,374)</u>
Net capital assets	<u>\$ 3,885,816</u>	<u>\$ (147,032)</u>	<u>\$ (1,417)</u>	<u>\$ 3,737,367</u>
Projects under construction	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<u>Business-Type Activities</u>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 96,845	\$ -	\$ -	\$ 96,845
Capital assets, being depreciated:				
Buildings	\$ 152,532	\$ -	\$ -	\$ 152,532
Machinery and equipment	4,992,250	20,258	-	5,012,508
Utility plants	16,255,520	42,856	-	16,298,376
Subtotal	<u>\$ 21,400,302</u>	<u>\$ 63,114</u>	<u>\$ -</u>	<u>\$ 21,463,416</u>
Accumulated depreciation:				
Buildings	\$ (143,535)	\$ -	\$ -	\$ (143,535)
Machinery and equipment	(2,372,509)	(111,732)	-	(2,484,241)
Utility plants	(2,691,588)	(716,729)	-	(3,408,317)
Subtotal	<u>\$ (5,207,632)</u>	<u>\$ (828,461)</u>	<u>\$ -</u>	<u>\$ (6,036,093)</u>
Net capital assets	<u>\$ 16,289,515</u>	<u>\$ (765,347)</u>	<u>\$ -</u>	<u>\$ 15,524,168</u>
Projects under construction	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 41,313
Public safety	13,243
Highways & streets	51,337
Recreation and parks	119,525
Total governmental-type activities depreciation expense	<u>\$ 225,418</u>
Business-type activities:	
Water	\$ 162,917
Sewer	665,544
Total business-type activities depreciation expense	<u>\$ 828,461</u>
Total depreciation expense	<u>\$ 1,053,879</u>

Note 7. Other Accrued Expenses

Other accrued expenses include accrued compensated absences in the amounts of \$14,697 and \$7,807 for the General and Proprietary Funds, respectively. General Fund amounts are considered a Fund liability since they are normally expected to be liquidated with expendable available financial resources. The policy with regard to accrued compensated absences is vacation may be accumulated up to a maximum of twenty days and any employee who terminates employment of the Town receives all earned time. Employees can be paid for vacation in excess of twenty days at the discretion of the Mayor and Council. Sick leave is not paid upon termination, whether voluntarily or involuntarily, however an employee retiring from the Town who has reached age 55, and has been employed by the Town for 15 years or longer will be compensated, upon retirement, at a rate of \$10 per day for each unused sick leave day up to 70 days.

Note 8. Long-Term Debt - Proprietary Fund Types

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 prepayable without penalty and is unsecured. The commencement of payments was postponed and no payments were made prior to June 30, 2012.

<u>Sewer Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - General Fund	<u>\$ 58,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,880</u>	<u>\$ 5,888</u>

On August 31, 2005 the Town obtained a \$127,984 loan from the Maryland Department of the Environment (MDE) for the replacement of the Park View Sewer Interceptor. Terms of the note provide for annual payments of \$6,687, including interest at a fixed rate of 1% commencing February 2006, through February 2024. The loan is unsecured.

The loan is prepayable without penalty. Interest will be recomputed if the prepayment of principal is more than six months in advance.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt - Proprietary Fund Types (Continued)

<u>Sewer Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - MDE	\$ 90,150	\$ -	\$ (6,528)	\$ 83,622	\$ 6,593

On August 26, 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 WWTP upgrade project. Terms of the USDA bond call for quarterly payments of \$79,501, including interest at a rate of 4.375%, for a period of 40 years, except that if the useful life of the plant is less than 40 years, the payments would be accelerated. Repayment began November 26, 2009. The bonds are secured by the full faith and credit and unlimited taxing power of the Town. The bond is prepayable without penalty.

<u>Sewer Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Bond payable - USDA	\$ 5,889,915	\$ -	\$ (61,315)	\$ 5,828,600	\$ 62,979

The Town also borrowed \$2,000,000 from MDE by the issuance of the Water Quality Bond, Series 2009 on July 31, 2009. The purpose was to finance the Town's WWTP upgrade project. The bond with MDE bears interest at 1% and requires payments of fixed principal and interest annually on February 1 for a 20 year period, ending February 2029. The bonds are secured by the full faith and credit and unlimited taxing power of the Town.

<u>Sewer Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Bond payable - MDE	\$ 1,817,430	\$ -	\$ (92,656)	\$ 1,724,774	\$ 93,583

On October 1, 1990, the Town borrowed \$325,100 at 7.5% by the issuance of the Infrastructure Bonds, 1990 Series I. The purpose was to finance the Town's Water System Improvements Project. The bonds are secured by the full faith and credit and taxing power of the Town.

On July 2, 1998, the Maryland Department of Housing and Community Development issued its 1998 Series C Bonds to refund six series of Infrastructure Financing Bonds for 1988 through 1992. The effect of this refunding was to reduce the original average interest cost from 7.5% to 4.69%. All other terms of the original agreement, including principal repayments remain in effect.

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
General obligation bonds payable	\$ 187,941	\$ -	\$ (13,308)	\$ 174,633	\$ 14,394

During fiscal year 1999, the Town received a loan from the Maryland Department of the Environment (MDE) to assist in the funding of the Water Filtration Project. Under the agreement with MDE, the Town pays annual interest at 4.9% fixed beginning June 1999. 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.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt - Proprietary Fund Types (Continued)

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - MDE	\$ 126,711	\$ -	\$ (4,946)	\$ 121,765	\$ 5,188

The Town obtained a \$1,335,085 loan from the Maryland Water Quality Financing Administration (MWQFA) under the Federal Safe Drinking Water Act. The loan is being amortized over 17 annual payments starting February 2002. Interest, at a fixed rate of 3.13%, is being paid semi-annually in August and February. The funding is to cover a portion of the Boonsboro/Keedysville water filtration project. (See Note 16 for additional information concerning the project.) The loan is a general obligation of the Town, with the full faith and credit and taxing power of the Town pledged. Prepayments may be made, but any penalty is at the discretion of the Maryland Water Quality Financing Administration. This loan was paid in full in July 2012.

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - MWQFA	\$ 451,094	\$ -	\$ (73,317)	\$ 377,777	\$ 75,610

During fiscal year 2009, the Town received a loan in the amount of \$78,000 from the Maryland Department of the Environment (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 starting 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.

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - MDE	\$ 66,291	\$ -	\$ (3,456)	\$ 62,835	\$ 3,532

In July 2009, the Town received an additional loan in the amount of \$281,000 from the Maryland Department of the Environment (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. Draws of \$94,887 were made during the year ended June 30, 2011, for a total drawn during the duration of the project of \$253,574. The loan is being amortized over 19 annual payments starting 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.

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - MDE	\$ 239,119	\$ -	\$ (13,586)	\$ 225,533	\$ 13,725

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt - Proprietary Fund Types (Continued)

On October 29, 2009, the Town entered into a loan agreement with Susquehanna Bank in the amount of \$339,834. Terms of the note call for 180 monthly interest only payments. In addition to the regularly scheduled interest payments, the Town is required to make semi-annual principal payments of \$11,500 each April and October beginning April 29, 2010 with the final payment of all unpaid principal and accrued interest to be due and payable October 29, 2024. The interest rate is fixed at 5.38% for the first 120 months of the term of the loan; thereafter, the interest rate is variable based on the previous week's average of the Federal Home Loan Bank of Pittsburgh's corresponding five year amortizing fixed rate in effect at that time, plus one hundred sixty one basis points (1.61%). This note is prepayable without penalty and is unsecured.

<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note payable - Susquehanna Bank	\$ 305,334	\$ -	\$ (23,000)	\$ 282,334	\$ 23,000

Required payments on debt of the Water and Sewer Fund in future years are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 298,604	\$ 321,651
2014	312,226	312,656
2015	320,187	303,353
2016	328,382	293,737
2017	312,400	283,787
2018-2022	1,337,730	1,290,007
2023-2027	1,273,554	1,150,197
2028-2032	897,343	931,052
2033-2037	824,600	765,420
2038-2042	1,025,824	564,196
2043-2047	1,276,149	313,871
2048-2050	733,754	43,806
	<u>\$ 8,940,753</u>	<u>\$ 6,573,733</u>

The current maturity of \$5,888 pertaining to the note payable to the General Fund is excluded from the current maturities of long-term obligations and the total note is displayed in the noncurrent assets section of the Statement of Net Assets.

Note 9. Long-Term Debt - Governmental Fund

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. The balance of the note at June 30, 2012 is \$186,000.

On January 26, 2005, the Town entered into a loan agreement with Susquehanna Bank in which \$2,000,000 was available to fund Shafer Park improvements. The loan is collateralized by park real estate. At June 30, 2012, \$1,500,000 was drawn on the loan. The loan called for monthly interest only payments at a fixed rate of 3.95% for 60 months followed by a balloon payment on January 26, 2010. The Town has extended the note through July 26, 2012 with all other conditions staying the same, except that the interest rate was reduced to 2.89% fixed. The note can be prepaid without penalty.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Debt- Governmental Fund (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note Payable - MWQFA	\$ 201,500	\$ -	\$ (15,500)	\$ 186,000	\$ 15,500
Loan Payable - Susquehanna	1,500,000	-	(38)	1,499,962	1,499,962
	<u>\$ 1,701,500</u>	<u>\$ -</u>	<u>\$ (15,538)</u>	<u>\$ 1,685,962</u>	<u>\$ 1,515,462</u>

Requirements for payments in future years are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,515,462	\$ 24,687
2014	15,500	-
2015	15,500	-
2016	15,500	-
2017	15,500	-
2018-2022	77,500	-
2023-2024	31,000	-
	<u>\$ 1,685,962</u>	<u>\$ 24,687</u>

Note 10. Governmental Fund Balances

The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2012 is as follows:

	<u>General Fund</u>
Fund Balances	
Nonspendable:	
Reserved for long-term receivables	\$ 81,840
Restricted:	
Hotel/Motel tax	61,491
WWTP	119,698
Friends of Shafer Park	40,000
Committed:	
Excise tax	85,193
Shafer park expansion	296,828
Unassigned	2,445,280
	<u>\$ 3,130,330</u>

Note 11. Deposits

Deposits, which amounted to \$33,200 at June 30, 2012, represent payments by developers for inspections not yet completed or for driveway bonds and donations received for the establishment of a curb-side recycling program. 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. The donations for the establishment of a curb-side recycling program will be held in an escrow account until a reasonable curb-side recycling program comes to fruition.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 12. Interfund Receivables and Payables

Outstanding balances between funds are reported as "due to/from other funds" and are the result of lending/borrowing arrangements outstanding at the end of the fiscal year .

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 21,132
	Sewer	20,388
Water	General	13,312
Sewer	General	3,134
	Water	<u>37,120 *</u>
Total		<u>\$ 95,086</u>

* This represents the due to/from between business type activities. The total between governmental and business type activities is \$25,074, net. Amounts owed to the general fund by the business type activities are \$41,520 and amounts owed to the business type activities from the general fund are \$16,446.

Note 13. Pension 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. The Town currently has fourteen total full-time and part-time employees with eleven employees participating in the plan. The employees of the Town made no contributions. The Town's contribution for fiscal year 2012 was \$37,178.

Note 14. 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.

Note 15. Risk Management

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

The Town has joined with other State of Maryland local governments in another LGIT Pool. The Town pays an annual premium to LGIT to insure against property, public official's liability, auto, and general liability claims. LGIT is backed by the full faith and credit of the member governments, which could subject them to assessments in the event LGIT incurs excess expenses in a plan year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 15. Risk Management (Continued)

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 fiscal years.

Note 16. Boonsboro/Keedysville Water Filtration Project

The Mayor and Council of Boonsboro (Boonsboro) and the Mayor and Council 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

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

Note 17. 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.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 18. Commitments

The Town had several improvement projects in various stages of planning or construction for which funding commitments have been received. Phase 1 of the improvements to Shafer Park have been completed with \$1,500,000 of the costs of the project funded through a construction loan. See Note 9. At June 30, 2012, there was \$2,132,815 classified as land, road improvements, and park and playground equipment which included costs for grading, engineering, and construction services relating to Shafer Park improvements including the Town pond, improvements to Shafer Park Drive, new football and soccer fields, and new restrooms.

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 (See Note 8) and \$3,610,600 of costs funded through grants. As of June 30, 2012, all of the grant funds have been received. 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. See Note 19.

The extension of Alternate Route 40 water lines was completed with the help of MDE. The project was funded with \$359,000 of costs to be funded through construction loans and \$677,500 of costs funded through grants. As of June 30, 2012 all of the grant funds have been received. Also, at June 30, 2012, \$327,554 was drawn on the construction loans. See Note 8.

Note 19. Agreements with Developers

The Mayor and Council 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. See Note 18. These agreements provide for a specific 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 20, an allowance for doubtful accounts has been established as of June 30, 2012.

Note 20. Risks and Vulnerability

As disclosed in Notes 18 and 19, 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, 2012, the Town has \$290,496 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 fully collect for amounts owed by the developers due to current economic conditions and the history of payments to date. Because of these reasons, the Town has established an allowance for doubtful accounts of \$290,496 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 deferred revenue – tap fees on the statement of net assets. In the event the developers do not purchase additional taps, the Town will determine an alternate method of funding the debt service payments in order to not default on the loans.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 21. Restricted Cash

In July 2009, the Town established a segregated bank account, as required by MDE, with a balance of \$117,000. The purpose of the account is to provide the funds to make debt service payments for the WWTP in the event one or more of the developers default on their payments to the Town. The current balance of the account at June 30, 2012 is \$119,698.

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. The balance of the account at June 30, 2012 is \$40,000.

Note 22. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2012 through November 12, 2012, the date these financial statements were available to be issued. Based on definitions and requirements of generally accepted accounting principles, management has identified two events that have occurred subsequent to June 30, 2012 through November 12, 2012 that require recognition or disclosure in the financial statements.

The Town withdrew \$20,000 from the Restricted Cash – WWTP account in order to make the required debt service payments.

In July 2012, the Town paid the water fund loan from Maryland Water Quality Financing Administration (MWQFA) in full. See Note 8.

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local property taxes, net of discounts:				
Real Property	\$ 927,821	\$ 927,821	\$ 921,224	\$ (6,597)
Personal property - unincorporated	1,000	1,000	2,276	1,276
Personal property - incorporated	45,000	45,000	55,333	10,333
Penalties and interest	3,500	3,500	4,465	965
Discounts allowed	(10,000)	(10,000)	(11,548)	(1,548)
	<u>\$ 967,321</u>	<u>\$ 967,321</u>	<u>\$ 971,750</u>	<u>\$ 4,429</u>
Licenses and permits:				
Trader's	\$ 3,500	\$ 3,500	\$ 3,678	\$ 178
Alcoholic beverages	200	200	1,395	1,195
Planning and zoning	9,200	9,200	31,289	22,089
	<u>\$ 12,900</u>	<u>\$ 12,900</u>	<u>\$ 36,362</u>	<u>\$ 23,462</u>
Grants and shared taxes:				
State of Maryland:				
Income tax	\$ 215,000	\$ 215,000	\$ 310,616	\$ 95,616
Admissions	6,000	6,000	3,117	(2,883)
Highway tax	45,096	45,096	45,040	(56)
Grant for police protection	15,000	15,000	15,873	873
Other grants	-	-	17,919	17,919
Washington County:				
Grant in lieu of tax on financial corporations	950	950	951	1
Grant in lieu of tax on elderly housing	4,000	4,000	4,576	576
Hotel/Motel tax	22,500	22,500	26,388	3,888
Parking fines	800	800	1,020	220
	<u>\$ 309,346</u>	<u>\$ 309,346</u>	<u>\$ 425,500</u>	<u>\$ 116,154</u>
Charges for sanitation services	\$ 72,680	\$ 72,680	\$ 73,449	\$ 769
Other revenue:				
Interest	\$ 4,500	\$ 4,500	\$ 19,002	\$ 14,502
Rent and other income	27,900	27,900	47,060	19,160
Cable TV franchise fees	18,000	18,000	19,929	1,929
	<u>\$ 50,400</u>	<u>\$ 50,400</u>	<u>\$ 85,991</u>	<u>\$ 35,591</u>
TOTAL REVENUES	<u>\$ 1,412,647</u>	<u>\$ 1,412,647</u>	<u>\$ 1,593,052</u>	<u>\$ 180,405</u>

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2012
(UNAUDITED)

(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
General government:				
Mayor and Council:				
Salaries	\$ 73,340	\$ 73,340	\$ 75,455	\$ (2,115)
Operating expenses	21,175	21,175	26,061	(4,886)
Contributions and donations	1,000	1,000	1,100	(100)
Treasurer - salary	1,000	1,000	1,000	-
Legal, audit and retirement administration	17,900	17,900	28,070	(10,170)
Election	300	300	256	44
Planning and zoning	61,855	61,855	64,660	(2,805)
Town building operating expenses	68,000	68,000	70,293	(2,293)
Economic development commission	2,600	2,600	3,360	(760)
Total general government	<u>\$ 247,170</u>	<u>\$ 247,170</u>	<u>\$ 270,255</u>	<u>\$ (23,085)</u>
Public safety:				
Police department:				
Chief salary	\$ 49,021	\$ 49,021	\$ 47,794	\$ 1,227
Officer salaries	123,504	123,504	122,037	1,467
K-9	1,000	1,000	435	565
Equipment	8,000	8,000	7,250	750
Uniforms	1,500	1,500	1,289	211
Supplies	2,000	2,000	1,601	399
Telephone	1,500	1,500	1,936	(436)
Cell phones	1,800	1,800	1,850	(50)
Training	500	500	120	380
Building maintenance	7,500	7,500	8,169	(669)
Vehicle maintenance	6,000	6,000	4,081	1,919
Vehicle gas	15,600	15,600	16,799	(1,199)
Other police and public safety expenses	-	-	500	(500)
Police and public safety committee meetings	700	700	499	201
Night Out expense	1,000	1,000	762	238
Volunteer company contributions				
Fire department	17,000	17,000	16,000	1,000
Fire hydrants	11,200	11,200	11,521	(321)
Ambulance service	17,000	17,000	17,000	-
Total public safety	<u>\$ 264,825</u>	<u>\$ 264,825</u>	<u>\$ 259,643</u>	<u>\$ 5,182</u>
Highway and streets:				
Salaries	\$ 85,355	\$ 85,355	\$ 82,960	\$ 2,395
Street lighting	65,000	65,000	58,553	6,447
Maintenance and operating expenses	51,200	51,200	52,263	(1,063)
Snow removal	10,000	10,000	5,936	4,064
Total highway and streets	<u>\$ 211,555</u>	<u>\$ 211,555</u>	<u>\$ 199,712</u>	<u>\$ 11,843</u>
Sanitation	<u>\$ 178,800</u>	<u>\$ 178,800</u>	<u>\$ 184,086</u>	<u>\$ (5,286)</u>

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2012
(UNAUDITED)

(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Recreation and parks:				
Salaries	\$ 770	\$ 770	\$ 630	\$ 140
Park grounds maintenance	13,000	13,000	11,120	1,880
Park facilities maintenance	5,000	5,000	7,566	(2,566)
Operating expenses	<u>12,550</u>	<u>12,550</u>	<u>9,679</u>	<u>2,871</u>
Total recreation and parks	<u>\$ 31,320</u>	<u>\$ 31,320</u>	<u>\$ 28,995</u>	<u>\$ 2,325</u>
Non-departmental expenditures:				
Insurance	\$ 16,200	\$ 16,200	\$ 13,178	\$ 3,022
Health insurance	73,900	73,900	63,779	10,121
Retirement	27,000	27,000	23,618	3,382
Workers compensation	12,000	12,000	7,626	4,374
Payroll taxes	32,000	32,000	31,363	637
Contingency fund	88,377	88,377	-	88,377
Miscellaneous expense	<u>-</u>	<u>-</u>	<u>855</u>	<u>(855)</u>
Total non-departmental expenditures	<u>\$ 249,477</u>	<u>\$ 249,477</u>	<u>\$ 140,419</u>	<u>\$ 109,058</u>
Capital outlay:				
Equipment	\$ 24,000	\$ 24,000	\$ 23,444	\$ 556
Police department capital expense	35,000	35,000	35,523	(523)
Police department improvements - MEA grant	-	-	17,919	(17,919)
Long-term capital improvements	<u>50,000</u>	<u>50,000</u>	<u>1,500</u>	<u>48,500</u>
Total capital outlay	<u>\$ 109,000</u>	<u>\$ 109,000</u>	<u>\$ 78,386</u>	<u>\$ 30,614</u>
Debt retirement:				
Park expansion loan interest	\$ 105,000	\$ 105,000	\$ 47,306	\$ 57,694
Park expansion principal	-	-	38	(38)
Mortgage wellhead protection property	<u>15,500</u>	<u>15,500</u>	<u>15,500</u>	<u>-</u>
Total debt retirement	<u>\$ 120,500</u>	<u>\$ 120,500</u>	<u>\$ 62,844</u>	<u>\$ 57,656</u>
TOTAL EXPENDITURES	<u>\$ 1,412,647</u>	<u>\$ 1,412,647</u>	<u>\$ 1,224,340</u>	<u>\$ 188,307</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 368,712</u>	<u>\$ 368,712</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets			<u>\$ 2,525</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 371,237</u>	
FUND BALANCE - BEGINNING OF YEAR			<u>2,759,093</u>	
FUND BALANCE - END OF YEAR			<u>\$ 3,130,330</u>	

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
 WATER UTILITY FUND (BUDGETARY BASIS)
 YEAR ENDED JUNE 30, 2012
 (UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 380,000	\$ 380,000	\$ 359,505	\$ (20,495)
Charges for debt services	179,640	179,640	178,862	(778)
Charges for administration	44,680	44,680	41,665	(3,015)
Connection charges and other income	65,100	65,100	4,400	(60,700)
TOTAL OPERATING REVENUES	\$ 669,420	\$ 669,420	\$ 584,432	\$ (84,988)
OPERATING EXPENSES				
Maintenance and repairs	\$ 40,000	\$ 40,000	\$ 58,466	\$ (18,466)
Chemicals	8,500	8,500	12,609	(4,109)
Electricity	67,500	67,500	54,267	13,233
Heating	1,500	1,500	1,120	380
Telephone	4,000	4,000	4,039	(39)
Advertising	250	250	1,504	(1,254)
Salaries	120,005	120,005	99,711	20,294
Insurance	12,500	12,500	10,934	1,566
Health/life insurance expense	35,600	35,600	31,326	4,274
Audit	7,150	7,150	5,773	1,377
Legal fees	500	500	162	338
Supplies	3,000	3,000	5,976	(2,976)
Miscellaneous	100	100	107	(7)
Uniforms	1,000	1,000	1,292	(292)
Professional memberships	1,000	1,000	1,027	(27)
Meeting expense	1,200	1,200	1,205	(5)
Payroll taxes	7,000	7,000	6,274	726
Pension expense	7,500	7,500	6,713	787
Testing	1,000	1,000	720	280
Truck expense	8,000	8,000	10,463	(2,463)
Equipment expense	2,000	2,000	-	2,000
Engineering fees	2,000	2,000	-	2,000
Contingency fund	30,051	30,051	-	30,051
Postage	1,500	1,500	1,511	(11)
Capital equipment	25,500	25,500	58,416	(32,916)
Loan administrative costs	5,297	5,297	5,238	59
TOTAL OPERATING EXPENSES	\$ 393,653	\$ 393,653	\$ 378,853	\$ 14,800
OPERATING INCOME	\$ 275,767	\$ 275,767	\$ 205,579	\$ (70,188)
OTHER REVENUES AND (EXPENSES)				
Interest expense	\$ (61,738)	\$ (61,738)	\$ (50,377)	\$ 11,361
Debt service (principal)	(173,543)	(173,543)	(131,613)	41,930
Rental and other income	11,200	11,200	11,200	-
Interest income	400	400	2,204	1,804
TOTAL OTHER REVENUES AND (EXPENSES)	\$ (223,681)	\$ (223,681)	\$ (168,586)	\$ 55,095
NET INCOME	\$ 52,086	\$ 52,086	\$ 36,993	\$ (15,093)

Note: Budgetary basis reflects principal payments on debt and capital equipment purchases as expenses and does not reflect depreciation and amortization expense.

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
SEWER UTILITY FUND (BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 494,900	\$ 494,900	\$ 485,734	\$ (9,166)
Connection charges and other income	7,781	7,781	-	(7,781)
TOTAL OPERATING REVENUES	\$ 502,681	\$ 502,681	\$ 485,734	\$ (16,947)
OPERATING EXPENSES				
Maintenance and repairs	\$ 35,000	\$ 35,000	\$ 66,691	\$ (31,691)
Chemicals	60,000	60,000	52,959	7,041
Biosolids removal	100,000	100,000	118,169	(18,169)
Electricity	95,000	95,000	65,633	29,367
Heating	1,500	1,500	1,120	380
Telephone	4,200	4,200	3,384	816
Salaries	88,005	88,005	99,586	(11,581)
Insurance	31,000	31,000	29,633	1,367
Health/life insurance expense	22,060	22,060	30,523	(8,463)
Advertising	-	-	1,504	(1,504)
Audit	7,150	7,150	5,773	1,377
Legal fees	500	500	1,769	(1,269)
Supplies	4,000	4,000	8,023	(4,023)
Miscellaneous	-	-	9,157	(9,157)
Uniforms	750	750	1,254	(504)
Professional memberships	500	500	657	(157)
Meeting expense	1,200	1,200	1,205	(5)
Payroll taxes	7,250	7,250	6,233	1,017
Pension expense	8,000	8,000	6,847	1,153
Testing	20,000	20,000	19,685	315
Truck expense	5,500	5,500	3,551	1,949
Equipment expense	2,500	2,500	456	2,044
Engineering fees	2,000	2,000	1,935	65
Postage	1,200	1,200	1,184	16
Capital equipment	-	-	4,698	(4,698)
Loan administrative costs	6,158	6,158	6,158	-
TOTAL OPERATING EXPENSES	\$ 503,473	\$ 503,473	\$ 547,787	\$ (44,314)
OPERATING (LOSS)	\$ (792)	\$ (792)	\$ (62,053)	\$ (61,261)
OTHER REVENUES AND (EXPENSES)				
Interest expense	\$ (275,766)	\$ (275,766)	\$ (275,014)	\$ 752
Debt service (principal)	(160,499)	(160,499)	(160,499)	-
Rental and other income	429,005	429,005	2,380	(426,625)
Interest income	500	500	1,010	510
TOTAL OTHER REVENUES AND (EXPENSES)	\$ (6,760)	\$ (6,760)	\$ (432,123)	\$ (425,363)
NET (LOSS)	\$ (7,552)	\$ (7,552)	\$ (494,176)	\$ (486,624)

Note: 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.



**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**

Mayor and Council of Boonsboro
Boonsboro, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Mayor and Council of Boonsboro (the Town) as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 12, 2012. 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.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

We noted certain matters that we reported to management of the Mayor and Council of Boonsboro, in a separate letter dated November 12, 2012.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

The Mayor and Council of Boonsboro's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Mayor and Council of Boonsboro's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor and Council of Boonsboro, the Town's management, others within the Town, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
November 12, 2012

MAYOR AND COUNCIL OF BOONSBORO

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

Finding 2012-1

Criteria: The Town must report on the accrual basis of accounting for GAAP purposes. This requires the Town to accurately record receivables, payables, and other accruals before the physical cash receipts or disbursements take place. This is a repeat finding.

**Condition/
Context:** We noted that the Town's subsidiary ledgers were not in agreement with the general ledger. In order to make the financial reports generated by the accounting system as meaningful as possible, the Town should reconcile the general ledger accounts for accounts receivable, accounts payable, due to/due from, long-term debt and accrued expenses to supporting documentation on a monthly basis.

Cause: The Town has not reconciled the accounts receivable, accounts payable, long-term debt and accrued expenses subsidiary records to the general ledger on a regular basis.

Effect: The financial statements could have been misstated or incomplete. The Town's internal control system alone may not have identified this. Additionally, reports required by various grant agreements could be misstated or incomplete.

Recommendation: We recommend that a reconciliation of the detail to the accounts receivable, accounts payable, long-term debt and accrued expenses general ledger accounts be made at the end of each month and that any reconciling items be investigated and cleared promptly. Once the reconciliation of accounts receivable and other accounts has been prepared, we recommend that the reconciliations be reviewed and signed off on by the Town Manager.

**Management
Response:** The Town's accounting staff will implement procedures to follow the above recommendations. The Mayor and Council will also schedule training for the Town's accounting staff concerning the process of posting transactions.