

MAYOR AND COUNCIL OF BOONSBORO

FINANCIAL REPORT

JUNE 30, 2013

CONTENTS

	Page	
INDEPENDENT AUDITOR'S REPORT	1-3	
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4-9	
BASIC FINANCIAL STATEMENTS		
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Statement of net position.....	10	
Statement of activities	11	
FUND FINANCIAL STATEMENTS		
Balance sheet – governmental fund.....	12	
Reconciliation of fund balance to net position of governmental activities	13	
Statement of revenues, expenditures and changes in fund balance – governmental fund	14	
Reconciliation of the statement of revenues, expenditures and changes in fund balance of governmental funds to the statement of activities	15	
Statement of net position – proprietary funds.....	16	
Statement of revenues, expenses and changes in fund net position – proprietary funds	17	
Statement of cash flows – proprietary funds	18	
NOTES TO FINANCIAL STATEMENTS.....	19-36	
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)		
Statement of revenues and expenditures – budget and actual – General Fund	37-39	
OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)		
Statement of revenues and expenses – budget and actual – Water Utility Fund (Budgetary Basis)	40	
Statement of revenues and expenses – budget and actual – Sewer Utility Fund (Budgetary Basis).....	41	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		42-43
SCHEDULE OF FINDINGS AND RESPONSES	44	

INDEPENDENT AUDITOR'S REPORT

Mayor and Council of Boonsboro
Boonsboro, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Mayor and Council of Boonsboro as of and for the year ended June 30, 2013, and the related notes to the financial statements, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Mayor and Council of Boonsboro as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the Mayor and Council of Boonsboro has implemented a reporting model to account for deferred inflows, deferred outflows, net position, and items previously recorded as assets and liabilities required by the provisions of the Government Accounting Standards Board ("GASB") Statement 63, *Financial Reporting of Deferred Outflows Resources, Deferred Inflows Resources, and Net Position*, and GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mayor and Council of Boonsboro's financial statements as a whole. The budgetary comparison information for the water and sewer funds on pages 40 and 41 are presented for purposes of additional analysis and are not a required part of the basic 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 basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 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* in considering the Mayor and Council of Boonsboro's internal control over financial reporting and compliance.

Smith Elliott Keane & Company, LLC

Hagerstown, Maryland
October 29, 2013

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis for
the Year Ended June 30, 2013
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, 2013. Readers should also review the basic financial statements on pages 10-36 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 \$11,245,022. The net position of the governmental activities was \$5,396,377 and the combined net position of business-type activities were \$5,848,645. Of the combined net position of the governmental activities, \$2,989,410 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 Position 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 Position and Statement of Activities

The government-wide statements answer the question "How did the Town as a whole perform financially during FY 2013". 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 Position.* This statement (page 10) reports all assets and liabilities of the Town as of June 30, 2013. The difference between total assets and total liabilities is reported as "net position". Increases in net position generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This statement (page 11) 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, 2013. Changes in net position 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 19-24 in the Notes to the Financial Statements.

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis for
the Year Ended June 30, 2013
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 Position 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 12 and 14 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 16-18.

- *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 19-36 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 37-39 of this report.

Other supplementary information

Budgetary schedules for the major enterprise funds are also presented on pages 40-41.

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
the Year Ended June 30, 2013*
Unaudited

The Town of Boonsboro as a Whole

The following table presents condensed information on net assets as of June 30, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2013	2012	2013	2012	2013	2012	
<u>Net Position</u>							
<u>June 30, 2013 and 2012</u>							
<u>Assets:</u>							
Current and other assets	\$ 3,573,433	\$ 3,272,777	\$ 921,717	\$ 1,490,748	\$ 4,495,150	\$ 4,763,525	-6%
Capital assets	3,519,853	3,737,367	14,711,233	15,524,168	18,231,086	19,261,535	-5%
Total assets	<u>\$ 7,093,286</u>	<u>\$ 7,010,144</u>	<u>\$ 15,632,950</u>	<u>\$ 17,014,916</u>	<u>\$ 22,726,236</u>	<u>\$ 24,025,060</u>	
<u>Liabilities:</u>							
Other liabilities	\$ 157,957	\$ 142,447	\$ 1,504,268	\$ 1,247,716	\$ 1,662,225	\$ 1,390,163	20%
Long-term liabilities	1,538,952	1,685,962	8,280,037	8,881,873	9,818,989	10,567,835	-7%
Total liabilities	<u>\$ 1,696,909</u>	<u>\$ 1,828,409</u>	<u>\$ 9,784,305</u>	<u>\$ 10,129,589</u>	<u>\$ 11,481,214</u>	<u>\$ 11,957,998</u>	
<u>Net Position:</u>							
Net investment in capital assets	\$ 1,980,901	\$ 2,051,405	\$ 6,253,466	\$ 6,583,415	\$ 8,234,367	\$ 8,634,820	-5%
Restricted - excise tax	85,236	85,193	-	-	85,236	85,193	0%
Restricted - WWTP	99,924	119,698	39	16,967	99,963	136,665	-27%
Restricted - BKRWB	-	-	-	439,592	-	439,592	-100%
Restricted - Hotel/Motel tax	77,010	61,491	-	-	77,010	61,491	25%
Restricted - friends of Shafer Park	40,020	40,000	-	-	40,020	40,000	100%
Restricted - Shafer Park expansion	123,876	296,828	-	-	123,876	296,828	-58%
Unrestricted (Deficit)	2,989,410	2,527,120	(404,860)	(154,647)	2,584,550	2,372,473	9%
Total net position	<u>\$ 5,396,377</u>	<u>\$ 5,181,735</u>	<u>\$ 5,848,645</u>	<u>\$ 6,885,327</u>	<u>\$ 11,245,022</u>	<u>\$ 12,067,062</u>	

For governmental activities, the net position reflect the retroactive reporting of reportable capital assets acquired after June 30, 2003. For business-type activities, the depreciable assets have always been reported.

The Town's net position from governmental activities increased 4% from \$5,181,735 to \$5,396,377. Invested in capital assets net of related debt decreased \$70,504 due to depreciation of the existing assets and new acquisitions and disposals. Unrestricted net position increased \$462,290. The Town's assets increased 1% from \$7,010,144 to \$7,093,286 as a result of positive operating results in the general fund and maintaining higher cash and investment balances. Liabilities have decreased \$131,500 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
the Year Ended June 30, 2013*
Unaudited

The Town's net position from business-type activities decreased 15% from \$6,885,327 to \$5,848,645. Invested in capital assets net of related debt decreased \$329,949 mainly due to depreciation expense charged on the new wastewater treatment plant and the extension of the water main on Alternate Route 40. Unrestricted net position decreased \$250,213 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 8% from \$17,014,916 to \$15,632,950 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 position for the years ended June 30, 2013 and 2012.

Changes in Net Position
June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 106,902	\$ 118,071	\$ 954,201	\$ 1,070,166	\$ 1,061,103	\$ 1,188,237
Operating grants and contributions	15,873	55,873	-	-	15,873	55,873
Capital grants and contributions	60,000	17,919	-	-	60,000	17,919
General revenues:						
Income taxes	355,340	310,616	-	-	355,340	310,616
Property taxes	988,375	971,750	-	-	988,375	971,750
Other shared and local taxes and grants	65,829	80,072	-	-	65,829	80,072
Investment earnings	21,417	19,002	2,813	3,214	24,230	22,216
Miscellaneous income/(expenses)	22,684	19,749	5,879	13,580	28,563	33,329
Gain (Loss) on disposal of capital assets	(118)	1,108	(26,733)	-	(26,851)	1,108
Transfers	-	-	-	-	-	-
Total revenues	\$ 1,636,302	\$ 1,594,160	\$ 936,160	\$ 1,086,960	\$ 2,572,462	\$ 2,681,120
<u>Expenses</u>						
General government/non-departmental	\$ 485,353	\$ 499,293	\$ -	\$ -	\$ 485,353	\$ 499,293
Public safety	291,371	272,886	-	-	291,371	272,886
Highways and streets	264,817	251,049	-	-	264,817	251,049
Sanitation	214,883	184,086	-	-	214,883	184,086
Recreation and parks	165,236	148,520	-	-	165,236	148,520
Water	-	-	511,230	535,603	511,230	535,603
Sewer	-	-	1,461,612	1,483,647	1,461,612	1,483,647
Total expenses	\$ 1,421,660	\$ 1,355,834	\$ 1,972,842	\$ 2,019,250	\$ 3,394,502	\$ 3,375,084
Change in net position	\$ 214,642	\$ 238,326	\$ (1,036,682)	\$ (932,290)	\$ (822,040)	\$ (693,964)

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
the Year Ended June 30, 2013
Unaudited*

Governmental Activities – Change in Net Position

Governmental activities increased the Town's net position by \$214,642. Key elements of this increase are as follows:

- State shared income taxes exceeded budget by \$140,340. 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 \$28,500 due to the receipt of \$60,000 for King Farm Park Development.
- Interest income exceeded budget by \$16,917, due to receiving a higher interest rates on CD's in FY2013 compared to FY2012.
- Contingency fund expenses were under budget by \$25,374. The town has been conservative in spending and has tried to only spend what was necessary.

Business-type Activities – Change in Net Position

Business-type activities decreased the Town's net position by \$1,036,682. 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 which added significant capital assets that would be depreciated over future years. Depreciation expense for the Water and Sewer Funds is \$824,610 in FY2013.
- Operating expenses for the sewer fund exceeded budget by \$7,234 due to unexpected repairs that were needed for the new wastewater treatment plant and increased costs of operation.

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 \$3,415,476, an increase of \$285,146. Approximately 82% of this total amount (\$2,805,200) 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. Reduction in State funding to local governments resulted in a 36% reduction in Highway User Revenues and State Aid for Police Protection of 1%

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 2013.

TOWN OF BOONSBORO, MARYLAND
*Management's Discussion and Analysis for
the Year Ended June 30, 2013*
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, 2013, amounted to \$18,231,086 (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 \$1,489 for the governmental funds and \$38,409 for the business-type activities. The total disposals to the Town's investment in capital assets for the current fiscal year was \$763 for the governmental funds and \$144,226 for the business-type activities.

Additional information on the Town's capital assets can be found in the notes, on pages 27 and 28 of this report.

Debt Administration

The following table presents the Town of Boonsboro's outstanding debt owed to third parties, at June 30, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Total Outstanding Debt		% Change
	2013	2012	2013	2012	2013	2012	
Loans outstanding	\$ 1,538,952	\$ 1,685,962	\$ 8,119,798	\$ 8,707,240	\$ 9,658,750	\$ 10,393,202	-7%
General obligation bonds	-	-	160,239	174,633	160,239	174,633	-8%
Total debt	\$ 1,538,952	\$ 1,685,962	\$ 8,280,037	\$ 8,881,873	\$ 9,818,989	\$ 10,567,835	

Additional information on the long-term debt of the Town can be found in the notes on pages 28-32 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 POSITION

JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current			
Cash	\$ 226,891	\$ 72,309	\$ 299,200
Cash - restricted - WWTP	99,924	-	99,924
Cash - restricted - Shafer Park	40,020	-	40,020
Certificates of deposit, including accrued interest	974,505	321,206	1,295,711
Investments	1,962,217	427,783	2,390,000
Receivables:			
Taxes	3,195	-	3,195
Sanitation service	16,480	-	16,480
Sewer service	-	159,155	159,155
Water service	-	119,299	119,299
Due from other governmental agencies	54,146	-	54,146
Other, net of allowance for doubtful accounts of \$456,548	-	-	-
Noncurrent			
Loans receivable/payable - other funds	177,730	(177,730)	-
Notes receivable	6,480	-	6,480
Due to/from other funds	11,845	(11,845)	-
Capital assets, net of accumulated depreciation	3,519,853	14,711,233	18,231,086
TOTAL ASSETS	\$ 7,093,286	\$ 15,621,410	\$ 22,714,696
Deferred Outflows of Resources			
Infrastructure bond issue costs	\$ -	\$ 5,854	\$ 5,854
Loan issue costs	-	5,686	5,686
	\$ -	\$ 11,540	\$ 11,540
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,093,286	\$ 15,632,950	\$ 22,726,236
LIABILITIES			
Current			
Current maturities of long-term obligations	\$ 150,810	\$ 228,362	\$ 379,172
Matured bonds payable	-	697	697
Accounts payable	65,976	31,116	97,092
Unearned revenue - tap fees	-	1,388,519	1,388,519
Due to State of Maryland	-	24,791	24,791
Accrued interest	-	37,109	37,109
Other accrued expenses	58,781	21,736	80,517
Deposits	33,200	300	33,500
Noncurrent			
Note payable - MDE, net	-	111,135	111,135
Note payable - MWQFA, net	155,000	-	155,000
Note payable - Susquehanna Bank - Park improvements	1,233,142	-	1,233,142
Note payable - MDE - Park View sewer rehabilitation, net	-	70,369	70,369
Note payable - MDE - Alt. 40 Extension	-	55,695	55,695
Note payable - MDE - Alt. 40 Extension #2	-	197,944	197,944
Bond payable - WWTP upgrade - USDA	-	5,698,768	5,698,768
Bond payable - WWTP upgrade - MDE	-	1,536,672	1,536,672
Note payable - Susquehanna Bank - SHA Main St. Waterline	-	236,334	236,334
General obligation bonds payable, net	-	144,758	144,758
TOTAL LIABILITIES	\$ 1,696,909	\$ 9,784,305	\$ 11,481,214
NET POSITION			
Net investment in capital assets	\$ 1,980,901	\$ 6,253,466	\$ 8,234,367
Restricted - excise tax	85,236	-	85,236
Restricted - Shafer Park expansion	123,876	-	123,876
Restricted - Hotel/Motel tax	77,010	-	77,010
Restricted - WWTP	99,924	39	99,963
Restricted - friends of Shafer Park	40,020	-	40,020
Unrestricted (deficit)	2,989,410	(404,860)	2,584,550
TOTAL NET POSITION	\$ 5,396,377	\$ 5,848,645	\$ 11,245,022

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

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 301,165	\$ 25,250	\$ -	\$ -	\$ (275,915)	\$ -	\$ (275,915)
Public safety	291,371	1,095	15,873	-	(274,403)	-	(274,403)
Sanitation	214,863	73,119	-	-	(141,764)	-	(141,764)
Highways and streets	264,817	-	-	-	(264,817)	-	(264,817)
Recreation and parks	165,236	7,438	-	60,000	(97,798)	-	(97,798)
Non-departmental	184,188	-	-	-	(184,188)	-	(184,188)
Total governmental activities	\$ 1,421,660	\$ 106,902	\$ 15,873	\$ 60,000	\$ (1,238,885)	\$ -	\$ (1,238,885)
Business-type activities:							
Water	\$ 511,230	\$ 409,674	\$ -	\$ -	\$ -	\$ (101,556)	\$ (101,556)
Sewer	1,461,612	534,987	9,540	-	-	(917,085)	(917,085)
Total business-type activities	\$ 1,972,842	\$ 944,661	\$ 9,540	\$ -	\$ -	\$ (1,018,641)	\$ (1,018,641)
Total primary government	\$ 3,394,502	\$ 1,051,563	\$ 25,413	\$ 60,000	\$ (1,238,885)	\$ (1,018,641)	\$ (2,257,526)
General revenues:							
Taxes:							
Income Taxes					\$ 355,340	\$ -	\$ 355,340
Property taxes, levied for general purposes					988,375	-	988,375
Other shared and local taxes and grants					65,829	-	65,829
Miscellaneous revenues					22,684	3,948	26,632
Licenses, permits and other fees					-	1,931	1,931
Interest and investment earnings					21,417	2,813	24,230
(Loss) on disposal of capital assets					(118)	(26,733)	(26,851)
Total general revenues and transfers					\$ 1,453,527	\$ (18,041)	\$ 1,435,486
Change in net position					\$ 214,642	\$ (1,036,682)	\$ (822,040)
Net position - beginning of year					5,181,735	6,885,327	12,067,062
Net position - end of year					\$ 5,396,377	\$ 5,848,645	\$ 11,245,022

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

MAYOR AND COUNCIL OF BOONSBORO

BALANCE SHEET
GOVERNMENTAL FUND

JUNE 30, 2013

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 226,891
Cash - restricted - WWTP	99,924
Cash - restricted - Shafer Park	40,020
Certificates of deposit	974,505
Investments	1,962,217
Accounts receivable	70,626
Taxes receivable	3,195
Loans receivable	184,210
Due from other funds	<u>35,986</u>
TOTAL ASSETS	<u>\$ 3,597,574</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 65,976
Accrued expenses	58,781
Deposits	33,200
Due to other funds	<u>24,141</u>
TOTAL LIABILITIES	<u>\$ 182,098</u>
<u>FUND BALANCE</u>	
Nonspendable	\$ 184,210
Restricted	216,954
Committed	209,112
Unassigned	<u>2,805,200</u>
TOTAL FUND BALANCE	<u>\$ 3,415,476</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,597,574</u>

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

MAYOR AND COUNCIL OF BOONSBORO

RECONCILIATION OF FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total Fund Balance - Governmental Funds \$ 3,415,476

Amounts reported for governmental activities in the statement
of net position 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 3,519,853

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 (1,538,952)

Total Net Position - Governmental Activities \$ 5,396,377

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, 2013

	General Fund
<u>REVENUES</u>	
Local property taxes, net of discounts	\$ 988,375
Licenses and permits	24,575
Grants and shared taxes	498,137
Charges for services	73,119
Other revenue	52,214
TOTAL REVENUES	\$ 1,636,420
<u>EXPENDITURES</u>	
General government	\$ 264,495
Public safety	277,209
Highways and streets	214,883
Sanitation	215,095
Recreation and parks	46,905
Non-departmental expenditures	140,638
Capital outlay	1,489
Debt retirement - interest	43,550
Debt retirement - principal	147,010
TOTAL EXPENDITURES	\$ 1,351,274
EXCESS OF REVENUES OVER EXPENDITURES	\$ 285,146
<u>FUND BALANCE - BEGINNING OF YEAR</u>	3,130,330
<u>FUND BALANCE - END OF YEAR</u>	\$ 3,415,476

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, 2013

Net change in fund balances - Governmental Funds: \$ 285,146

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 position, 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. 1,489

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 position differs from change in fund balance by the net book value of the assets sold. (118)

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (218,885)

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 position. 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. 147,010

Change in Net Position of Governmental Activities \$ 214,642

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

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2013

<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 66,163	\$ 6,146	\$ 72,309
Certificates of deposit, including accrued interest	202,192	119,014	321,206
Investments	272,013	155,770	427,783
Receivables:			
Sewer service	-	159,155	159,155
Water service	119,299	-	119,299
Other, net of allowance for doubtful accounts of \$456,548	-	-	-
Due from other funds	17,533	7,773	25,306
TOTAL CURRENT ASSETS	\$ 677,200	\$ 447,858	\$ 1,125,058
FIXED ASSETS			
Property, plant and equipment	\$ 7,126,905	\$ 14,328,539	\$ 21,455,444
Less accumulated depreciation	(2,878,461)	(3,865,750)	(6,744,211)
	<u>\$ 4,248,444</u>	<u>\$ 10,462,789</u>	<u>\$ 14,711,233</u>
TOTAL ASSETS	\$ 4,925,644	\$ 10,910,647	\$ 15,836,291
DEFERRED OUTFLOWS OF RESOURCES			
Infrastructure bond issue costs, net of amortization of \$18,409	\$ 5,854	\$ -	\$ 5,854
Loan issue costs, net of amortization of \$13,971	5,686	-	5,686
	<u>\$ 11,540</u>	<u>\$ -</u>	<u>\$ 11,540</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 4,937,184	\$ 10,910,647	\$ 15,847,831
LIABILITIES AND NET POSITION			
LIABILITIES			
Matured bonds payable	\$ -	\$ 697	\$ 697
Accounts payable	6,065	25,051	31,116
Unearned revenue - tap fees	2,000	1,386,519	1,388,519
Deposits	-	300	300
Due to other funds	18,527	18,624	37,151
Due to State of Maryland	-	24,791	24,791
Accrued interest	4,214	32,895	37,109
Accrued compensated absences	4,047	4,047	8,094
Accrued pension expense	6,817	6,825	13,642
Note payable - Park View sewer rehabilitation	-	77,028	77,028
Loan payable - General Fund	-	58,880	58,880
Loan payable - General Fund #2	-	118,850	118,850
Bond payable - WWTP upgrade - USDA	-	5,764,558	5,764,558
Bond payable - WWTP upgrade - MDE	-	1,631,191	1,631,191
Note payable - MDE	116,577	-	116,577
Note payable - MDE - Alt. 40 Extension	59,304	-	59,304
Note payable - MDE - Alt. 40 Extension #2	211,806	-	211,806
General obligation bonds payable	160,239	-	160,239
Note payable - Susquehanna Bank - SHA Main St. Waterline	259,334	-	259,334
TOTAL LIABILITIES	\$ 848,930	\$ 9,150,256	\$ 9,999,186
NET POSITION			
Net investment in capital assets	\$ 3,441,184	\$ 2,812,282	\$ 6,253,466
Restricted - WWTP	-	39	39
Unrestricted (Deficit)	647,070	(1,051,930)	(404,860)
TOTAL NET POSITION	\$ 4,088,254	\$ 1,760,391	\$ 5,848,645

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

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>OPERATING REVENUES</u>			
Charges for services	\$ 355,656	\$ 525,613	\$ 881,269
Charges for debt service	22,918	-	22,918
Grants	-	9,540	9,540
Charges for administration	19,900	-	19,900
Connection charges and other income	11,200	9,374	20,574
TOTAL OPERATING REVENUES	\$ 409,674	\$ 544,527	\$ 954,201
<u>OPERATING EXPENSES</u>			
Depreciation	\$ 164,047	\$ 660,563	\$ 824,610
Amortization expense	1,872	-	1,872
Advertising	139	139	278
Maintenance and repairs	41,059	82,072	123,131
Chemicals	12,311	56,264	68,575
Biosolids removal	-	78,922	78,922
Electricity	45,739	66,207	111,946
Heating	1,326	1,326	2,652
Telephone	4,849	3,638	8,487
Salaries	100,470	101,047	201,517
Insurance	12,370	36,362	48,732
Health/life insurance expense	27,241	27,241	54,482
Audit	6,167	6,167	12,334
Supplies	7,080	8,516	15,596
Miscellaneous	15	-	15
Uniforms	728	728	1,456
Professional memberships	-	180	180
Meeting expense	1,730	1,235	2,965
Payroll taxes	6,805	6,897	13,702
Pension expense	7,587	7,571	15,158
Postage	1,894	1,770	3,664
Testing	1,026	21,115	22,141
Truck expense	7,030	3,015	10,045
Equipment expense	844	374	1,218
Engineering fees	18,105	12,826	30,931
Loan administrative costs	5,237	6,158	11,395
TOTAL OPERATING EXPENSES	\$ 475,671	\$ 1,190,333	\$ 1,666,004
OPERATING (LOSS)	\$ (65,997)	\$ (645,806)	\$ (711,803)
<u>OTHER REVENUES AND (EXPENSES)</u>			
Interest expense	\$ (35,559)	\$ (271,279)	\$ (306,838)
Other income	3,348	2,531	5,879
Interest income	1,905	908	2,813
Loss on disposal of assets	-	(26,733)	(26,733)
TOTAL OTHER REVENUES AND (EXPENSES)	\$ (30,306)	\$ (294,573)	\$ (324,879)
CHANGE IN NET POSITION	\$ (96,303)	\$ (940,379)	\$ (1,036,682)
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>4,184,557</u>	<u>2,700,770</u>	<u>6,885,327</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 4,088,254</u>	<u>\$ 1,760,391</u>	<u>\$ 5,848,645</u>

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, 2013

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 446,325	\$ 785,180	\$ 1,231,505
Cash payments to suppliers for goods and services	(205,868)	(420,166)	(626,034)
Cash payments to employees for services	(100,299)	(100,931)	(201,230)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 140,158</u>	<u>\$ 264,083</u>	<u>\$ 404,241</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
(Increase) decrease in due from other funds	\$ (4,221)	\$ 32,481	\$ 28,260
(Decrease) in due to other funds	(39,725)	(1,764)	(41,489)
Proceeds on notes payable	-	118,850	118,850
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>\$ (43,946)</u>	<u>\$ 149,567</u>	<u>\$ 105,621</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (13,553)	\$ (24,856)	\$ (38,409)
Interest paid on bonds and notes payable	(41,806)	(275,766)	(317,572)
Principal payments on notes and bonds payable	(437,616)	(160,499)	(598,115)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (492,975)</u>	<u>\$ (461,121)</u>	<u>\$ (954,096)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Other income	\$ 3,348	\$ 2,531	\$ 5,879
Interest on cash and investments	1,905	908	2,813
Purchase of certificate of deposit	(1,509)	(622)	(2,131)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 3,744</u>	<u>\$ 2,817</u>	<u>\$ 6,561</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (393,019)</u>	<u>\$ (44,654)</u>	<u>\$ (437,673)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>731,195</u>	<u>206,570</u>	<u>937,765</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 338,176</u></u>	<u><u>\$ 161,916</u></u>	<u><u>\$ 500,092</u></u>
RECONCILIATION OF (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating (loss)	\$ (65,997)	\$ (645,806)	\$ (711,803)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:			
Depreciation and amortization	165,919	660,563	826,482
(Increase) decrease in receivables	36,651	(24,664)	11,987
Decrease in receivables - other	-	14,009	14,009
Increase in accounts payable	2,573	7,843	10,416
Increase in unearned revenue - tap fees	-	251,308	251,308
Increase in accrued expenses	1,012	830	1,842
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 140,158</u>	<u>\$ 264,083</u>	<u>\$ 404,241</u>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET POSITION			
Cash	\$ 66,163	\$ 6,146	\$ 72,309
Investments - repurchase agreements	272,013	155,770	427,783
	<u>\$ 338,176</u>	<u>\$ 161,916</u>	<u>\$ 500,092</u>

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, 2013 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 position 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 used 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 Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. 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 Town 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 Town 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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town's water and sewer functions and various other functions of the Town.

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

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 Town 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.

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, 2013.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 position. 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.

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.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 (See Note 20).

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

Deferred Outflows and Inflows of Resources:

In March 2012, the GASB issued Statement 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by GASB Statement 65.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Town only has two items that qualifies for reporting in this category. It is the bond issuance costs reported in the statement of net position. These amounts are deferred and amortized over the life of the related debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town does not have any items that qualify for reporting in this category.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Net Position:

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this statement is to enhance the usefulness of reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of net position. This standard establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effects on a Town's net position. The reporting of deferred inflows and outflows also applies to the fund financial statements. The financial statements incorporate the changes required by GASB Statement 63.

In the government- wide financial statements, net position is classified in the following three categories:

Net investment in capital assets- Consists of capital assets grouped into one component of net position. Accumulated depreciation and the outstanding balances of debt, accounts payable, and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce the category. Net investment in capital assets as of June 30, 2013 consists of the following:

	<u>Government Wide Activities</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Capital assets	\$ 5,909,464	\$ 21,455,444	\$ 7,126,905	\$ 14,328,539
Accumulated depreciation	(2,389,612)	(6,744,211)	(2,878,461)	(3,865,750)
Debt	(1,538,952)	(8,457,767)	(807,260)	(7,650,507)
Net investment in capital assets	<u>\$ 1,980,900</u>	<u>\$ 6,253,466</u>	<u>\$ 3,441,184</u>	<u>\$ 2,812,282</u>

Restricted- Consists of components of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, regulations of other governments, law through constitutional provisions or enabling legislation. As of June 30, 2013 the Town had restrictions of net assets of \$216,954 (See Note 10).

Unrestricted- Consists of all other components of net position that do not meet the definition of "net investment in capital assets" or "restricted".

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information:

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

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

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

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, 2013, the carrying amount of the Town's deposits, including interest receivable, was \$1,734,855. The related bank balances totaled \$1,758,076, including accrued interest.

Following is a schedule of the Town's deposits by financial institution at June 30, 2013:

Susquehanna Bank	\$ 1,660,508
The Columbia Bank	9,710
Wells Fargo Advisors	<u>87,858</u>
	<u><u>\$ 1,758,076</u></u>

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk, however, State law requires that deposits be insured or collateralized. As of June 30, 2013 \$1,410,508 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><u>\$ 1,410,508</u></u>
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Note 4. Investments

As of June 30, 2013 the Town had the following investments and maturities:

Investment Type	Maturities	Fair Value
Repurchase agreements - Susquehanna Bank	Daily	<u><u>\$ 2,390,000</u></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:

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments (Continued)

- 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.

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 with local organizations. The two notes are as follows:

- 2009 – South Mountain Little League
On April 6, 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, with interest at 0%. A balance of \$6,480 is outstanding at June 30, 2013.
- 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. The loan was paid off during the year ended June 30, 2013.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,070,146	\$ -	\$ -	\$ 1,070,146
Capital assets, being depreciated:				
Buildings	\$ 1,374,344	\$ -	\$ -	\$ 1,374,344
Machinery and equipment	654,026	-	-	654,026
Storm drainage	522,548	-	-	522,548
Road improvements	616,753	-	-	616,753
Park and playground equipment	1,670,924	1,489	(763)	1,671,650
Subtotal	<u>\$ 4,838,595</u>	<u>\$ 1,489</u>	<u>\$ (763)</u>	<u>\$ 4,839,321</u>
Accumulated depreciation:				
Buildings	\$ (876,093)	\$ (31,438)	\$ -	\$ (907,531)
Machinery and equipment	(526,009)	(47,494)	-	(573,503)
Storm drainage	(396,777)	(4,659)	-	(401,436)
Road improvements	(113,568)	(32,651)	-	(146,219)
Park and playground equipment	(258,927)	(102,643)	645	(360,925)
Subtotal	<u>\$ (2,171,374)</u>	<u>\$ (218,885)</u>	<u>\$ 645</u>	<u>\$ (2,389,614)</u>
Net capital assets	<u>\$ 3,737,367</u>	<u>\$ (217,396)</u>	<u>\$ (118)</u>	<u>\$ 3,519,853</u>
	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
<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	5,012,508	13,553	(138,526)	4,887,535
Utility plants	16,298,376	24,856	(4,700)	16,318,532
Subtotal	<u>\$ 21,463,416</u>	<u>\$ 38,409</u>	<u>\$ (143,226)</u>	<u>\$ 21,358,599</u>
Accumulated depreciation:				
Buildings	\$ (143,535)	\$ -	\$ -	\$ (143,535)
Machinery and equipment	(2,484,241)	(111,513)	114,789	(2,480,965)
Utility plants	(3,408,318)	(713,097)	1,704	(4,119,711)
Subtotal	<u>\$ (6,036,094)</u>	<u>\$ (824,610)</u>	<u>\$ 116,493</u>	<u>\$ (6,744,211)</u>
Net capital assets	<u>\$ 15,524,167</u>	<u>\$ (786,201)</u>	<u>\$ (26,733)</u>	<u>\$ 14,711,233</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	\$ 36,670
Public safety	14,162
Highways & streets	49,722
Recreation and parks	118,331
Total governmental-type activities depreciation expense	\$ 218,885
Business-type activities:	
Water	\$ 164,047
Sewer	660,563
Total business-type activities depreciation expense	\$ 824,610
Total depreciation expense	\$ 1,043,495

Note 7. Other Accrued Expenses

Other accrued expenses include accrued compensated absences in the amounts of \$12,704 and \$8,094 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, 2013.

<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	\$ 58,880	\$ -	\$ -	\$ 58,880	\$ 5,888

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	\$ 83,622	\$ -	\$ (6,594)	\$ 77,028	\$ 6,659

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	\$5,828,600	\$ -	\$ (64,042)	\$5,764,558	\$ 65,790

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	\$1,724,774	\$ -	\$ (93,583)	\$1,631,191	\$ 94,519

In order to cover loan payments for the wastewater treatment plant upgrades due to certain developers not paying, the General Fund made several transfers to the Sewer Fund during the year ended June 30, 2013. As of June 30, 2013, the General Fund had transferred \$118,850 to the Sewer Fund to cover these loan payments. The loan will be repaid to the General Fund when the outstanding amounts due from the developers are paid in full. Since it is unlikely that these payments will occur within one year, no current maturities are booked for this loan.

<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	\$ -	\$ 118,850	\$ -	\$ 118,850	\$ -

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.

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>
General obligation bonds payable	\$ 174,633	\$ -	\$ (14,394)	\$ 160,239	\$ 15,481

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.

<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	\$ 121,765	\$ -	\$ (5,188)	\$ 116,577	\$ 5,442

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	\$ 377,777	\$ -	\$ (377,777)	\$ -	\$ -

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	\$ 62,835	\$ -	\$ (3,531)	\$ 59,304	\$ 3,609

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

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

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	\$ 225,533	\$ -	\$ (13,727)	\$ 211,806	\$ 13,862

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	\$ 282,334	\$ -	\$ (23,000)	\$ 259,334	\$ 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>
2014	\$ 228,362	\$ 303,198
2015	239,770	296,336
2016	245,448	289,237
2017	251,560	281,883
2018	257,844	274,258
2019-2023	1,338,932	1,250,316
2024-2028	1,260,523	1,115,162
2029-2033	802,167	898,685
2034-2038	861,409	728,611
2039-2043	1,071,614	518,406
2044-2048	1,333,114	256,906
2049-2050	389,294	16,205
	<u>\$ 8,280,037</u>	<u>\$6,229,203</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 Position. The second note payable to the general fund of \$118,850 is also displayed in the noncurrent asset section of the statement of net position.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

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, 2013 is \$170,500.

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, 2013, \$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, 2021 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. The balance of the note at June 30, 2013 is \$1,368,452.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Note Payable - MWQFA	\$ 186,000	\$ -	\$ (15,500)	\$ 170,500	\$ 15,500
Loan Payable - Susquehanna	1,499,962	-	(131,510)	1,368,452	135,310
	<u>\$ 1,685,962</u>	<u>\$ -</u>	<u>\$(147,010)</u>	<u>\$ 1,538,952</u>	<u>\$ 150,810</u>

Requirements for payments in future years are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 150,810	\$ 36,134
2015	154,721	32,055
2016	158,745	27,857
2017	162,884	23,539
2018	167,144	19,095
2019-2023	729,148	29,323
2024	15,500	-
	<u>\$1,538,952</u>	<u>\$ 168,003</u>

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 10. Governmental Fund Balances

The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2013 is as follows:

Fund Balances	<u>General Fund</u>
Nonspendable:	
Reserved for long-term receivables	\$ 184,210
Restricted:	
Hotel/Motel tax	\$ 77,010
WWTP	99,924
Friends of Shafer Park	40,020
	<u>\$ 216,954</u>
Committed:	
Excise tax	\$ 85,236
Shafer park expansion	123,876
	<u>\$ 209,112</u>
Unassigned	<u>\$ 2,805,200</u>
	<u><u>\$ 3,415,476</u></u>

Note 11. Deposits

Deposits, which amounted to \$33,200 at June 30, 2013, 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.

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	\$ 18,527
	Sewer	17,459
Water	General	(16,368)
	Sewer	1,165 *
Sewer	General	(7,773)
	Water	<u>(1,165) *</u>
Total		<u>\$ 11,845</u>

* This represents the due to/from between business type activities. The total between governmental and business type activities is \$11,845, net. Amounts owed to the general fund by the business type activities are \$35,986 and amounts owed to the business type activities from the general fund are \$24,141.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

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 fifteen total full-time and part-time employees with fourteen employees participating in the plan. The employees of the Town made no contributions. The Town's contribution for fiscal year 2013 was \$41,363.

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.

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

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 16. Boonsboro/Keedysville Water Filtration Project (Continued)

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.

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, 2013, there was \$2,134,304 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 had 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).

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.

MAYOR AND COUNCIL OF BOONSBORO

NOTES TO FINANCIAL STATEMENTS

Note 19. Agreements with Developers (Continued)

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, 2013.

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, 2013, the Town has \$456,548 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 \$456,548 offsetting the amounts owed by the developers. This has minimal effect on the statement of activities as amounts receivable for tap fees are recorded as unearned revenue – tap fees on the statement of net position. 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.

Note 21. Restricted Cash

In July 2009, the Town established a segregated bank account, as required by MDE. 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, 2013 is \$99,924.

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, 2013 is \$40,020.

Note 22. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2013 through October 29, 2013, 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, 2013 through October 29, 2013 that require recognition or disclosure in the financial statements.

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2013
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local property taxes, net of discounts:				
Real property	\$ 942,610	\$ 942,610	\$ 942,657	\$ 47
Personal property - unincorporated	1,500	1,500	783	(717)
Personal property - incorporated	50,000	50,000	50,488	488
Penalties and interest	4,000	4,000	5,850	1,850
Discounts allowed	(10,000)	(10,000)	(11,403)	(1,403)
	<u>\$ 988,110</u>	<u>\$ 988,110</u>	<u>\$ 988,375</u>	<u>\$ 265</u>
Licenses and permits:				
Trader's	\$ 3,500	\$ 3,500	\$ 3,279	\$ (221)
Alcoholic beverages	200	200	417	217
Planning and zoning	9,500	9,500	20,879	11,379
	<u>\$ 13,200</u>	<u>\$ 13,200</u>	<u>\$ 24,575</u>	<u>\$ 11,375</u>
Grants and shared taxes:				
State of Maryland:				
Income tax	\$ 215,000	\$ 215,000	\$ 355,340	\$ 140,340
Admissions	6,000	6,000	3,956	(2,044)
Highway tax	29,617	29,617	28,779	(838)
Grant for police protection	15,873	15,873	15,873	-
Other grants	31,500	31,500	60,000	28,500
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	4,477	477
Hotel/Motel tax	22,500	22,500	27,666	5,166
Parking fines	800	800	1,095	295
Recycling program	30,000	30,000	-	(30,000)
	<u>\$ 356,240</u>	<u>\$ 356,240</u>	<u>\$ 498,137</u>	<u>\$ 141,897</u>
Charges for sanitation services	<u>\$ 72,780</u>	<u>\$ 72,780</u>	<u>\$ 73,119</u>	<u>\$ 339</u>
Other revenue:				
Interest	\$ 4,500	\$ 4,500	\$ 21,417	\$ 16,917
Other income	26,062	26,062	10,444	(15,618)
Cable TV franchise fees	19,500	19,500	20,353	853
	<u>\$ 50,062</u>	<u>\$ 50,062</u>	<u>\$ 52,214</u>	<u>\$ 2,152</u>
TOTAL REVENUES	<u>\$ 1,480,392</u>	<u>\$ 1,480,392</u>	<u>\$ 1,636,420</u>	<u>\$ 156,028</u>

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2013
(UNAUDITED)

(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>EXPENDITURES</u>				
General government:				
Mayor and Council:				
Salaries	\$ 74,935	\$ 74,935	\$ 75,915	\$ (980)
Operating expenses	22,700	22,700	26,551	(3,851)
Contributions and donations	1,000	1,000	100	900
Treasurer - salary	1,000	1,000	1,000	-
Legal, audit and retirement administration	17,750	17,750	24,743	(6,993)
Planning and zoning	62,853	62,853	71,010	(8,157)
Town building operating expenses	68,000	68,000	62,962	5,038
Economic Development Commission	2,600	2,600	2,214	386
Total general government	<u>\$ 250,838</u>	<u>\$ 250,838</u>	<u>\$ 264,495</u>	<u>\$ (13,657)</u>
Public safety:				
Police department:				
Chief salary	\$ 48,970	\$ 48,970	\$ 59,209	\$ (10,239)
Officer salaries	124,627	124,627	122,037	2,590
K-9	1,000	1,000	435	565
Equipment	9,000	9,000	7,250	1,750
Uniforms	2,000	2,000	1,289	711
Supplies	2,000	2,000	1,601	399
Telephone	1,500	1,500	1,936	(436)
Cell phones	1,900	1,900	1,850	50
Training	750	750	120	630
Building maintenance	8,500	8,500	8,169	331
Vehicle maintenance	6,000	6,000	4,081	1,919
Vehicle gas	17,500	17,500	16,799	701
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	18,000	18,000	18,000	-
Fire hydrants	11,200	11,200	14,672	(3,472)
Ambulance service	18,000	18,000	18,000	-
Total public safety	<u>\$ 272,647</u>	<u>\$ 272,647</u>	<u>\$ 277,209</u>	<u>\$ (4,562)</u>
Highway and streets:				
Salaries	\$ 83,626	\$ 83,626	\$ 96,781	\$ (13,155)
Street lighting	65,000	65,000	60,857	4,143
Maintenance and operating expenses	53,000	53,000	46,261	6,739
Snow removal	10,000	10,000	10,984	(984)
Total highway and streets	<u>\$ 211,626</u>	<u>\$ 211,626</u>	<u>\$ 214,883</u>	<u>\$ (3,257)</u>
Sanitation	<u>\$ 212,477</u>	<u>\$ 212,477</u>	<u>\$ 215,095</u>	<u>\$ (2,618)</u>

MAYOR AND COUNCIL OF BOONSBORO
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2013
(UNAUDITED)

(Continued)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Recreation and parks:				
Salaries	\$ 770	\$ 770	\$ 640	\$ 130
Park grounds maintenance	13,000	13,000	19,640	(6,640)
Park facilities maintenance	7,000	7,000	10,681	(3,681)
Operating expenses	12,550	12,550	15,944	(3,394)
Total recreation and parks	\$ 33,320	\$ 33,320	\$ 46,905	\$ (13,585)
Non-departmental expenditures:				
Insurance	\$ 13,400	\$ 13,400	\$ 11,698	\$ 1,702
Health insurance	73,900	73,900	54,708	19,192
Retirement	27,000	27,000	26,205	795
Workers compensation	13,900	13,900	13,815	85
Payroll taxes	35,000	35,000	33,470	1,530
Contingency fund	25,374	25,374	-	25,374
Miscellaneous expense	-	-	742	(742)
Total non-departmental expenditures	\$ 188,574	\$ 188,574	\$ 140,638	\$ 47,936
Capital outlay:				
Equipment	\$ 40,000	\$ 40,000	\$ -	\$ 40,000
Long-term capital improvements	80,000	80,000	1,489	78,511
Total capital outlay	\$ 120,000	\$ 120,000	\$ 1,489	\$ 118,511
Debt retirement:				
Park expansion loan interest	\$ 175,410	\$ 175,410	\$ 43,550	\$ 131,860
Park expansion principal	-	-	131,510	(131,510)
Mortgage wellhead protection property	15,500	15,500	15,500	-
Total debt retirement	\$ 190,910	\$ 190,910	\$ 190,560	\$ 350
TOTAL EXPENDITURES	\$ 1,480,392	\$ 1,480,392	\$ 1,351,274	\$ 129,118
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 285,146	\$ 285,146
FUND BALANCE - BEGINNING OF YEAR			3,130,330	
FUND BALANCE - END OF YEAR			\$ 3,415,476	

MAYOR AND COUNCIL OF BOONSBORO

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
 WATER UTILITY FUND (BUDGETARY BASIS)
 YEAR ENDED JUNE 30, 2013
 (UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 365,000	\$ 365,000	\$ 355,656	\$ (9,344)
Charges for debt services	177,844	177,844	22,918	(154,926)
Charges for administration	51,300	51,300	19,900	(31,400)
Connection charges and other income	65,100	65,100	11,200	(53,900)
Prior year reserves available for current year operations	53,142	53,142	-	(53,142)
TOTAL OPERATING REVENUES	\$ 712,386	\$ 712,386	\$ 409,674	\$ (302,712)
OPERATING EXPENSES				
Maintenance and repairs	\$ 40,000	\$ 40,000	\$ 41,059	\$ (1,059)
Chemicals	9,500	9,500	12,311	(2,811)
Electricity	50,000	50,000	45,739	4,261
Heating	1,500	1,500	1,326	174
Telephone	4,000	4,000	4,849	(849)
Advertising	-	-	139	(139)
Salaries	92,690	92,690	100,470	(7,780)
Insurance	12,600	12,600	12,370	230
Health/life insurance expense	20,000	20,000	27,241	(7,241)
Audit	5,800	5,800	6,167	(367)
Legal fees	500	500	-	500
Supplies	5,100	5,100	7,080	(1,980)
Miscellaneous	100	100	15	85
Uniforms	1,000	1,000	728	272
Professional memberships	500	500	-	500
Meeting expense	1,200	1,200	1,730	(530)
Payroll taxes	7,500	7,500	6,805	695
Pension expense	8,000	8,000	7,587	413
Testing	1,000	1,000	1,026	(26)
Truck expense	8,000	8,000	7,030	970
Equipment expense	2,000	2,000	844	1,156
Engineering fees	6,000	6,000	18,105	(12,105)
Contingency fund	74,498	74,498	-	74,498
Postage	1,500	1,500	1,894	(394)
Capital equipment	118,142	118,142	13,553	104,589
Loan administrative costs	1,011	1,011	5,237	(4,226)
TOTAL OPERATING EXPENSES	\$ 472,141	\$ 472,141	\$ 323,305	\$ 148,836
OPERATING INCOME	\$ 240,245	\$ 240,245	\$ 86,369	\$ (153,876)
OTHER REVENUES AND (EXPENSES)				
Interest expense	\$ (36,156)	\$ (36,156)	\$ (35,559)	\$ 597
Debt service (principal)	(62,269)	(62,269)	(437,616)	(375,347)
Other income	11,200	11,200	3,348	(7,852)
Interest income	400	400	1,905	1,505
TOTAL OTHER REVENUES AND (EXPENSES)	\$ (86,825)	\$ (86,825)	\$ (467,922)	\$ (381,097)
NET INCOME (LOSS)	\$ 153,420	\$ 153,420	\$ (381,553)	\$ (534,973)

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, 2013
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 547,666	\$ 547,666	\$ 525,613	\$ (22,053)
Grants	-	-	9,540	9,540
Connection charges and other income	-	-	9,374	9,374
TOTAL OPERATING REVENUES	\$ 547,666	\$ 547,666	\$ 544,527	\$ (3,139)
OPERATING EXPENSES				
Maintenance and repairs	\$ 48,000	\$ 48,000	\$ 82,072	\$ (34,072)
Chemicals	60,000	60,000	56,264	3,736
Biosolids removal	100,000	100,000	78,922	21,078
Electricity	85,000	85,000	66,207	18,793
Heating	1,500	1,500	1,326	174
Telephone	3,700	3,700	3,638	62
Salaries	92,690	92,690	101,047	(8,357)
Insurance	33,000	33,000	36,362	(3,362)
Health/life insurance expense	20,000	20,000	27,241	(7,241)
Advertising	-	-	139	(139)
Audit	5,800	5,800	6,167	(367)
Legal fees	500	500	-	500
Supplies	7,000	7,000	8,516	(1,516)
Miscellaneous - contingency fund	36,995	36,995	-	36,995
Uniforms	1,000	1,000	728	272
Professional memberships	500	500	180	320
Meeting expense	1,200	1,200	1,235	(35)
Payroll taxes	7,500	7,500	6,897	603
Pension expense	8,000	8,000	7,571	429
Testing	20,000	20,000	21,115	(1,115)
Truck expense	3,500	3,500	3,015	485
Equipment expense	2,500	2,500	374	2,126
Engineering fees	2,000	2,000	12,826	(10,826)
Postage	1,200	1,200	1,770	(570)
Capital equipment	52,905	-	24,856	(24,856)
Loan administrative costs	5,807	5,807	6,158	(351)
TOTAL OPERATING EXPENSES	\$ 600,297	\$ 547,392	\$ 554,626	\$ (7,234)
OPERATING (LOSS)	\$ (52,631)	\$ 274	\$ (10,099)	\$ (10,373)
OTHER REVENUES AND (EXPENSES)				
Interest expense	\$ (272,046)	\$ (272,046)	\$ (271,279)	\$ 767
Debt service (principal)	(164,570)	(164,570)	(160,499)	4,071
Other income	427,241	427,241	2,531	(424,710)
Interest income	500	500	908	408
TOTAL OTHER REVENUES AND (EXPENSES)	\$ (8,875)	\$ (8,875)	\$ (428,339)	\$ (419,464)
NET (LOSS)	\$ (61,506)	\$ (8,601)	\$ (438,438)	\$ (429,837)

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.

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

Mayor and Council of Boonsboro
Boonsboro, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 29, 2013.

Internal Control Over Financial Reporting

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

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

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 2013-1 to be a material weakness.

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 October 29, 2013.

The Mayor and Council of Boonsboro's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Smith Elliott Keenan & Company, LLC

Hagerstown, Maryland
October 29, 2013

MAYOR AND COUNCIL OF BOONSBORO

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Finding 2013-1

Criteria: During the audit items were found to be posted incorrectly and subsidiary ledgers were not reconciled to the general ledger. Audit adjustments were necessary for the balances to be properly reflected in the financial statements.

**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 Mayor and Council will begin to develop internal controls and the Town's accounting staff will implement procedures to adopt the above recommendation.