

Audited
Financial
Statements

June 30,
2014

Mayor and Council of Boonsboro



CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4-10
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Activities	12
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Fund	13
Reconciliation of Fund Balance to Net Position of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Notes to Financial Statements	20-41
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Statement of Revenues and Expenditures – Budget and Actual – General Fund	42-44
OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)	
Statement of Revenues and Expenses – Budget and Actual – Water Utility Fund (Budgetary Basis)	45
Statement of Revenues and Expenses – Budget and Actual – Sewer Utility Fund (Budgetary Basis)	46
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>	47-48
SCHEDULE OF FINDINGS AND RESPONSES	49-54



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 (Town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 42 through 44 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 basic financial statements. The budgetary comparison information for the water and sewer funds on pages 45 and 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014 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 Kearns & Company, LLC

Hagerstown, Maryland
November 13, 2014

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
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, 2014. Readers should also review the basic financial statements on pages 11-41 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 \$10,568,627. The net position of the governmental activities was \$5,568,793 and the combined net position of business-type activities was \$4,999,834. Of the combined net position of the governmental activities, \$2,675,215 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 2014". 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 11) reports all assets and liabilities of the Town as of June 30, 2014. 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.

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
Unaudited

- **The Statement of Activities.** This statement (page 12) 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, 2014. 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 20-27 in the Notes to the Financial Statements.

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 14 and 16.

The Town of Boonsboro maintains one governmental fund. The governmental fund financial statements on pages 13 and 15 display 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.

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
Unaudited

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 17-19.

- **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 20-41 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 42-44 of this report.

Other supplementary information

Budgetary schedules for the major enterprise funds are also presented on pages 45-46.

THE TOWN OF BOONSBORO AS A WHOLE

The following table presents condensed information on net position as of June 30, 2014 and 2013.

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2014	2013	2014	2013	2014	2013	
ASSETS							
Current and other assets	\$ 3,696,612	\$ 3,573,433	\$ 962,042	\$ 921,717	\$ 4,658,654	\$ 4,495,150	4%
Capital assets	3,467,064	3,519,853	13,992,329	14,711,233	17,459,393	18,231,086	-4%
Total Assets	7,163,676	7,093,286	14,954,371	15,632,950	22,118,047	22,726,236	
LIABILITIES							
Other liabilities	206,743	157,957	1,743,962	1,504,268	1,950,705	1,662,225	17%
Long-term liabilities	1,388,140	1,538,952	8,210,575	8,280,037	9,598,715	9,818,989	-2%
Total Liabilities	1,594,883	1,696,909	9,954,537	9,784,305	11,549,420	11,481,214	
NET POSITION							
Net investment in capital assets	2,078,924	1,980,901	5,375,219	6,253,466	7,454,143	8,234,367	-9%
Restricted - Excise tax	85,499	85,236	-	-	85,499	85,236	0%
Restricted - WWTP	100,024	99,924	39,139	39	139,163	99,963	39%
Restricted - Hotel/Motel tax	87,580	77,010	-	-	87,580	77,010	14%
Restricted - Friends of Shafer Park	40,106	40,020	-	-	40,106	40,020	0%
Committed - Shafer Park expansion	86,921	123,876	-	-	86,921	123,876	-30%
Unrestricted (Deficit)	3,089,739	2,989,410	(414,524)	(404,860)	2,675,215	2,584,550	4%
Total Net Position	\$ 5,568,793	\$ 5,396,377	\$ 4,999,834	\$ 5,848,645	\$ 10,568,627	\$ 11,245,022	

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

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
Unaudited

The Town's net position from governmental activities increased 3% from \$5,396,377 to \$5,568,793. Net investment in capital assets increased \$98,023 due to payments of debt, as well as depreciation of the existing assets and new acquisitions and disposals. Unrestricted net position increased \$100,329. The Town's assets increased 1% from \$7,093,286 to \$7,163,676 as a result of positive operating results in the general fund. Liabilities have decreased \$102,026 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.

The Town's net position from business-type activities decreased 15% from \$5,848,645 to \$4,999,834. Net investment in capital assets decreased \$878,247 mainly due to an increase in debt (the sewer fund is borrowing from the general fund to make payments on the wastewater treatment plant debt) and depreciation expense. Unrestricted net position (deficit) decreased \$9,664 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 4% from \$15,632,950 to \$14,954,371 as a result of the increase in net payable due to the general fund for the wastewater treatment plant debt and depreciation.

The following table presents condensed information on the changes in net position for the years ended June 30, 2014 and 2013.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES						
Program Revenues						
Charges for services	\$ 112,036	\$ 106,902	\$ 1,069,695	\$ 954,201	\$ 1,181,731	\$ 1,061,103
Operating grants and contributions	44,597	15,873	-	-	44,597	15,873
Capital grants and contributions	67,774	60,000	-	-	67,774	60,000
General Revenues						
Income taxes	341,955	355,340	-	-	341,955	355,340
Property taxes	1,004,369	988,375	-	-	1,004,369	988,375
Other shared and local taxes and grants	137,081	65,829	-	-	137,081	65,829
Investment earnings	23,268	21,417	2,970	2,813	26,238	24,230
Miscellaneous income/(expenses)	21,881	22,684	30,571	5,879	52,452	28,563
(Loss) on disposal of capital assets	(25)	(118)	-	(26,733)	(25)	(26,851)
Total Revenues	<u>1,752,936</u>	<u>1,636,302</u>	<u>1,103,236</u>	<u>936,160</u>	<u>2,856,172</u>	<u>2,572,462</u>
EXPENSES						
General government/non-departmental	611,986	485,353	-	-	611,986	485,353
Public safety	297,772	291,371	-	-	297,772	291,371
Highways and streets	337,367	264,817	-	-	337,367	264,817
Sanitation	171,777	214,883	-	-	171,777	214,883
Recreation and parks	161,618	165,236	-	-	161,618	165,236
Water	-	-	523,598	511,230	523,598	511,230
Sewer	-	-	1,416,909	1,461,612	1,416,909	1,461,612
Total Expenses	<u>1,580,520</u>	<u>1,421,660</u>	<u>1,940,507</u>	<u>1,972,842</u>	<u>3,521,027</u>	<u>3,394,502</u>
CHANGE IN NET POSITION	<u>\$ 172,416</u>	<u>\$ 214,642</u>	<u>\$ (837,271)</u>	<u>\$ (1,036,682)</u>	<u>\$ (664,855)</u>	<u>\$ (822,040)</u>

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
Unaudited

GOVERNMENTAL ACTIVITIES – CHANGE IN NET POSITION

Governmental activities increased the Town's net position by \$172,416. Key elements of this increase are as follows:

- State shared income taxes exceeded budget by \$51,955. 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 \$14,806 due to the receipt of \$45,065 from MEA for the purchase of LED lighting, as well as recognition of two-thirds of previously deferred revenue related to curbside recycling from the Nora Roberts Foundation.
- Interest income exceeded budget by \$17,268, due to receiving a higher interest rates on CD's in FY 2014 compared to FY 2013.
- Capital outlay expenses were under budget by \$56,513. 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 \$837,271. Key elements of this decrease are as follows:

- The Town completed construction of a new wastewater treatment plant and extended 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 \$800,501 in FY 2014.
- Interest expense and principal repayment expense for the sewer fund were much higher than budget due to the fact that the sewer fund budget only included these expenses for the Park View sewer line debt, and not the wastewater treatment plant debt, which has much more significant interest costs associated with it.

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 \$3,489,869, an increase of \$74,393. Approximately 76% of this total amount (\$2,665,879) 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 balances of the proprietary funds are the same on the fund basis as they are in the government-wide financial statements.

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
Unaudited

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. Despite actual highway tax revenues being less than budget, highway tax revenue did increase 245% from FY 2013. Current year increases in other grants and shared taxes provide additional financial resources to meet monetary operating obligations; however, due to fluctuations in state funding, they cannot be relied upon as a consistent source of revenue in future years.

Increased expenses related to the wastewater treatment plant debt and operations resulted in a decrease in both the Town's net position and the Town's assets in FY 2014.

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, 2014, amounted to \$17,459,393 (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 were \$151,987 for the governmental funds and \$81,596 for the business-type activities. The total disposals to the Town's investment in capital assets for the current fiscal year were \$3,993 for the governmental funds and \$22,235 for the business-type activities.

Additional information on the Town's capital assets can be found in the notes, on pages 29 and 30 of this report.

Debt Administration

The following table presents the Town of Boonsboro's outstanding debt owed to third parties, at June 30, 2014 and 2013.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Outstanding Debt</u>		<u>% Change</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
Loans outstanding	\$ 1,388,140	\$ 1,538,952	\$ 8,065,817	\$ 8,119,798	\$ 9,453,957	\$ 9,658,750	-2%
General obligation bonds	-	-	144,758	160,239	144,758	160,239	-10%
Total debt	<u>\$ 1,388,140</u>	<u>\$ 1,538,952</u>	<u>\$ 8,210,575</u>	<u>\$ 8,280,037</u>	<u>\$ 9,598,715</u>	<u>\$ 9,818,989</u>	

Additional information on the long-term debt of the Town can be found in the notes on pages 31-35 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.

TOWN OF BOONSBORO, MARYLAND
Management's Discussion and Analysis
For the Year Ended June 30, 2014
Unaudited

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.

TOWN OF BOONSBORO, MARYLAND
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current			
Cash	\$ 71,995	\$ 130,211	\$ 202,206
Cash - restricted - WWTP	100,024	-	100,024
Certificates of deposit, including accrued interest	1,072,028	-	1,072,028
Certificate of deposit - restricted - Friends of Shafer Park	40,106	553,254	593,360
Investments	1,993,085	218,553	2,211,638
Receivables			
Sanitation service	15,997	-	15,997
Sewer service	-	212,468	212,468
Water service	-	153,043	153,043
Due from other governmental agencies	79,868	-	79,868
Other, net of allowance for doubtful accounts of \$594,723	-	-	-
Prepaid expenses	18,022	-	18,022
Total Current Assets	<u>3,391,125</u>	<u>1,267,529</u>	<u>4,658,654</u>
Noncurrent			
Loans receivable/payable - other funds	405,838	(405,838)	-
Due to/from other funds	(100,351)	100,351	-
Capital assets, net of accumulated depreciation	<u>3,467,064</u>	<u>13,992,329</u>	<u>17,459,393</u>
Total Noncurrent Assets	<u>3,772,551</u>	<u>13,686,842</u>	<u>17,459,393</u>
Total Assets	<u>7,163,676</u>	<u>14,954,371</u>	<u>22,118,047</u>
LIABILITIES			
Current			
Current maturities of long-term obligations	154,012	251,019	405,031
Matured bonds payable	-	697	697
Accounts payable	140,740	67,314	208,054
Unearned revenue - tap fees	-	1,598,433	1,598,433
Due to State of Maryland	-	24,606	24,606
Accrued interest	-	35,868	35,868
Other accrued expenses	52,803	16,744	69,547
Deposits	<u>13,200</u>	<u>300</u>	<u>13,500</u>
Total Current Liabilities	<u>360,755</u>	<u>1,994,981</u>	<u>2,355,736</u>
Noncurrent			
Note payable - MDE, net	-	105,426	105,426
Note payable - MWQFA, net	139,500	-	139,500
Note payable - Susquehanna Bank - Park improvements	1,094,628	-	1,094,628
Note payable - MDE - Park View sewer rehabilitation, net	-	63,643	63,643
Note payable - MDE - Alt. 40 Extension	-	52,006	52,006
Note payable - MDE - Alt. 40 Extension #2	-	183,943	183,943
Bond payable - WWTP upgrade - USDA	-	5,627,804	5,627,804
Bond payable - WWTP upgrade - MDE	-	1,441,209	1,441,209
Note payable - Susquehanna Bank - SHA Main St. Waterline	-	213,334	213,334
Note payable - Susquehanna Bank - Maple Ave. Waterline	-	144,000	144,000
General obligation bonds payable, net	<u>-</u>	<u>128,191</u>	<u>128,191</u>
Total Noncurrent Liabilities	<u>1,234,128</u>	<u>7,959,556</u>	<u>9,193,684</u>
Total Liabilities	<u>1,594,883</u>	<u>9,954,537</u>	<u>11,549,420</u>
NET POSITION			
Net investment in capital assets	2,078,924	5,375,219	7,454,143
Restricted - Excise tax	85,499	-	85,499
Restricted - Hotel/Motel tax	87,580	-	87,580
Restricted - WWTP	100,024	39,139	139,163
Restricted - Friends of Shafer Park	40,106	-	40,106
Committed - Shafer Park expansion	86,921	-	86,921
Unrestricted (deficit)	<u>3,089,739</u>	<u>(414,524)</u>	<u>2,675,215</u>
TOTAL NET POSITION	<u>\$ 5,568,793</u>	<u>\$ 4,999,834</u>	<u>\$ 10,568,627</u>

TOWN OF BOONSBORO, MARYLAND
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENTS							
Governmental Activities							
General government	\$ 298,950	\$ 30,405	\$ 20,532	\$ 13,261	\$ (234,752)	\$ -	\$ (234,752)
Public safety	297,772	300	24,065	-	(273,407)	-	(273,407)
Sanitation	171,777	73,116	-	-	(98,661)	-	(98,661)
Highways and streets	337,367	-	-	31,804	(305,563)	-	(305,563)
Recreation and parks	161,618	8,215	-	22,709	(130,694)	-	(130,694)
Non-departmental	313,036	-	-	-	(313,036)	-	(313,036)
Total Governmental Activities	<u>1,580,520</u>	<u>112,036</u>	<u>44,597</u>	<u>67,774</u>	<u>(1,356,113)</u>	<u>-</u>	<u>(1,356,113)</u>
Business-Type Activities							
Water	523,598	441,298	-	-	-	(82,300)	(82,300)
Sewer	1,416,909	628,397	-	-	-	(788,512)	(788,512)
Total Business-Type Activities	<u>1,940,507</u>	<u>1,069,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(870,812)</u>	<u>(870,812)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,521,027</u>	<u>\$ 1,181,731</u>	<u>\$ 44,597</u>	<u>\$ 67,774</u>	<u>(1,356,113)</u>	<u>(870,812)</u>	<u>(2,226,925)</u>
GENERAL REVENUES							
Taxes							
Income Taxes					341,955	-	341,955
Property taxes, levied for general purposes					1,004,369	-	1,004,369
Other shared and local taxes and grants					137,081	-	137,081
Miscellaneous revenues					21,881	1,199	23,080
Licenses, permits and other fees					-	29,372	29,372
Interest and investment earnings					23,268	2,970	26,238
(Loss) on disposal of capital assets					(25)	-	(25)
Total General Revenues and Transfers					<u>1,528,529</u>	<u>33,541</u>	<u>1,562,070</u>
Change in net position					172,416	(837,271)	(664,855)
NET POSITION - BEGINNING OF YEAR, AS RESTATED					<u>5,396,377</u>	<u>5,837,105</u>	<u>11,233,482</u>
NET POSITION - END OF YEAR					<u>\$ 5,568,793</u>	<u>\$ 4,999,834</u>	<u>\$ 10,568,627</u>

TOWN OF BOONSBORO, MARYLAND
Balance Sheet – Governmental Fund
June 30, 2014

	General Fund
ASSETS	
Cash	\$ 71,995
Cash - restricted - WWTP	100,024
Certificates of deposit, including accrued interest	1,072,028
Certificates of deposit - restricted - Friends of Shafer Park	40,106
Investments	1,993,085
Accounts receivable	95,865
Loans receivable from sewer fund	405,838
Due from other funds	43,916
Prepaid expenses	18,022
	<hr/>
TOTAL ASSETS	\$ 3,840,879
<hr/>	
LIABILITIES	
Accounts payable	\$ 140,740
Accrued expenses	52,803
Deposits	13,200
Due to other funds	144,267
	<hr/>
Total Liabilities	351,010
<hr/>	
FUND BALANCE	
Nonspendable	423,860
Restricted	313,209
Committed	86,921
Unassigned	2,665,879
	<hr/>
Total Fund Balance	3,489,869
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,840,879
	<hr/>

TOWN OF BOONSBORO, MARYLAND
Reconciliation of Fund Balance to Net Position of Governmental Activities
June 30, 2014

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 3,489,869

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 3,467,064

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 (1,388,140)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 5,568,793

TOWN OF BOONSBORO, MARYLAND
Statement of Revenues, Expenditures and Changes In Fund Balance
Governmental Fund
Year Ended June 30, 2014

	General Fund
REVENUES	
Local property taxes, net of discounts	\$ 1,004,369
Licenses and permits	30,210
Grants and shared taxes	591,707
Charges for services	73,116
Other revenue	<u>53,558</u>
Total Revenues	<u>1,752,960</u>
EXPENDITURES	
General government	268,780
Public safety	283,019
Highways and streets	295,918
Sanitation	171,777
Recreation and parks	43,239
Non-departmental expenditures	274,818
Capital outlay	151,987
Debt retirement - interest	38,218
Debt retirement - principal	<u>150,811</u>
Total Expenditures	<u>1,678,567</u>
Excess of Revenues Over Expenditures	74,393
FUND BALANCE - BEGINNING OF YEAR	<u>3,415,476</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 3,489,869</u></u>

TOWN OF BOONSBORO, MARYLAND
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2014

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ 74,393

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, 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. 151,987

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. (25)

Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (204,750)

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. This amount is the net effect of these differences in the treatment of long-term debt and related items. 150,811

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 172,416

TOWN OF BOONSBORO, MARYLAND
Statement of Net Position – Proprietary Funds
June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets			
Cash	\$ 76,285	\$ 53,926	\$ 130,211
Certificates of deposit, including accrued interest	330,579	222,675	553,254
Investments	173,123	45,430	218,553
Receivables:			
Sewer service	-	212,468	212,468
Water service	153,043	-	153,043
Other, net of allowance for doubtful accounts of \$594,723	-	-	-
Due from other funds	78,492	66,322	144,814
Total Current Assets	811,522	600,821	1,412,343
Fixed Assets			
Property, plant and equipment	7,163,783	14,351,022	21,514,805
Less accumulated depreciation	<u>(3,016,938)</u>	<u>(4,505,538)</u>	<u>(7,522,476)</u>
	<u>4,146,845</u>	<u>9,845,484</u>	<u>13,992,329</u>
Total Assets	4,958,367	10,446,305	15,404,672
LIABILITIES AND NET POSITION			
Current Liabilities			
Current maturities of long-term obligations	78,965	177,942	256,907
Matured bonds payable	-	697	697
Accounts payable	21,685	45,629	67,314
Unearned revenue - tap fees	2,000	1,596,433	1,598,433
Deposits	-	300	300
Due to other funds	19,836	24,627	44,463
Due to State of Maryland	-	24,606	24,606
Accrued interest	3,864	32,004	35,868
Accrued compensated absences	2,350	2,350	4,700
Accrued pension expense	6,022	6,022	12,044
Total Current Liabilities	134,722	1,910,610	2,045,332
Noncurrent Liabilities			
Note payable - Park View sewer rehabilitation	-	63,643	63,643
Loan payable - General Fund	-	52,992	52,992
Loan payable - General Fund #2	-	346,958	346,958
Bond payable - WWTP upgrade - USDA	-	5,627,804	5,627,804
Bond payable - WWTP upgrade - MDE	-	1,441,209	1,441,209
Note payable - MDE	105,426	-	105,426
Note payable - MDE - Alt. 40 Extension	52,006	-	52,006
Note payable - MDE - Alt. 40 Extension #2	183,943	-	183,943
General obligation bonds payable	128,191	-	128,191
Note payable - Susquehanna Bank - SHA Main St. Waterline	213,334	-	213,334
Note payable - Susquehanna Bank - Maple Ave. Waterline	144,000	-	144,000
Total Noncurrent Liabilities	826,900	7,532,606	8,359,506
Total Liabilities	961,622	9,443,216	10,404,838
NET POSITION			
Net investment in capital assets	3,240,980	2,134,239	5,375,219
Restricted - WWTP	-	39,139	39,139
Unrestricted (Deficit)	755,765	(1,170,289)	(414,524)
TOTAL NET POSITION	\$ 3,996,745	\$ 1,003,089	\$ 4,999,834

TOWN OF BOONSBORO, MARYLAND
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 366,341	\$ 550,206	\$ 916,547
Charges for debt service	22,475	70,650	93,125
Charges for administration	41,282	-	41,282
Connection charges and other income	11,200	7,541	18,741
Total Operating Revenues	<u>441,298</u>	<u>628,397</u>	<u>1,069,695</u>
OPERATING EXPENSES			
Depreciation	155,955	644,546	800,501
Advertising	1,374	1,242	2,616
Maintenance and repairs	21,388	64,533	85,921
Chemicals	14,037	38,996	53,033
Biosolids removal	-	87,942	87,942
Electricity	48,355	79,219	127,574
Heating	1,616	1,478	3,094
Telephone	5,475	4,099	9,574
Salaries	109,405	108,994	218,399
Insurance	13,169	30,807	43,976
Health/life insurance expense	17,044	16,937	33,981
Audit	6,500	6,500	13,000
Supplies	9,048	6,310	15,358
Miscellaneous	(3,521)	200	(3,321)
Uniforms	1,174	1,162	2,336
Professional memberships	-	210	210
Meeting expense	2,225	1,210	3,435
Payroll taxes	8,311	8,280	16,591
Pension expense	6,022	6,022	12,044
Postage	1,568	1,846	3,414
Testing	1,273	21,531	22,804
Truck expense	8,052	2,856	10,908
Contingency fund	46,702	-	46,702
Equipment expense	315	-	315
Engineering fees	15,241	11,521	26,762
Total Operating Expenses	<u>490,728</u>	<u>1,146,441</u>	<u>1,637,169</u>
Operating (Loss)	<u>(49,430)</u>	<u>(518,044)</u>	<u>(567,474)</u>
OTHER REVENUES AND (EXPENSES)			
Interest expense	(32,870)	(270,468)	(303,338)
Other income	650	29,921	30,571
Interest income	1,681	1,289	2,970
Total Other Revenues and (Expenses)	<u>(30,539)</u>	<u>(239,258)</u>	<u>(269,797)</u>
Change in Net Position	(79,969)	(757,302)	(837,271)
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>4,076,714</u>	<u>1,760,391</u>	<u>5,837,105</u>
NET POSITION - END OF YEAR	<u>\$ 3,996,745</u>	<u>\$ 1,003,089</u>	<u>\$ 4,999,834</u>

TOWN OF BOONSBORO, MARYLAND
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 407,554	\$ 784,998	\$ 1,192,552
Cash payments to suppliers for goods and services	(210,543)	(373,126)	(583,669)
Cash payments to employees for services	(111,102)	(110,691)	(221,793)
Net Cash Provided by Operating Activities	85,909	301,181	387,090
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
(Increase) in due from other funds	(60,959)	(58,549)	(119,508)
Increase in due to other funds	1,309	6,003	7,312
(Decrease) in due to other government agency	-	(185)	(185)
Proceeds on notes payable	160,000	228,108	388,108
Net Cash Provided by Noncapital Financing Activities	100,350	175,377	275,727
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(54,356)	(27,240)	(81,596)
Interest paid on bonds and notes payable	(33,220)	(271,360)	(304,580)
Principal payments on notes and bonds payable	(61,395)	(168,067)	(229,462)
Net Cash (Used In) Capital and Related Financing Activities	(148,971)	(466,667)	(615,638)
CASH FLOW FROM INVESTING ACTIVITIES			
Other income	650	29,921	30,571
Interest on cash and investments	1,681	1,289	2,970
Purchases of certificates of deposit	(166,387)	(111,161)	(277,548)
Redemption of certificates of deposit	38,000	7,500	45,500
Net Cash (Used In) Investing Activities	(126,056)	(72,451)	(198,507)
Net (Decrease) in Cash and Cash Equivalents	(88,768)	(62,560)	(151,328)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	338,176	161,916	500,092
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 249,408	\$ 99,356	\$ 348,764
RECONCILIATION OF (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating (loss)	\$ (49,430)	\$ (518,044)	\$ (567,474)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:			
Depreciation	155,955	644,546	800,501
(Increase) in receivables	(33,744)	(53,313)	(87,057)
Increase in accounts payable	15,620	20,578	36,198
Increase in unearned revenue - tap fees	-	209,914	209,914
(Decrease) in accrued expenses	(2,492)	(2,500)	(4,992)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 85,909	\$ 301,181	\$ 387,090
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET POSITION			
Cash	\$ 76,285	\$ 53,926	\$ 130,211
Investments - repurchase agreements	173,123	45,430	218,553
	\$ 249,408	\$ 99,356	\$ 348,764

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

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

The accompanying financial statements are presented as of June 30, 2014 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. 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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ***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 fund:

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.

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.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

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:

	YEARS
ASSETS	
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.

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.

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
June 30, 2014

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	\$.35 per \$100 of assessable base
Personal property tax	\$.87 per \$100 of assessable base

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make the June 30, 2013 amounts conform to classifications used for the year ended June 30, 2014.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

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

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

Net Position

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, 2014 consists of the following:

	Government Wide Activities		Water Fund	Sewer Fund
	Governmental Activities	Business Type Activities		
Capital assets	\$ 6,057,461	\$ 21,514,805	\$ 7,163,783	\$ 14,351,022
Accumulated depreciation	(2,590,397)	(7,522,476)	(3,016,938)	(4,505,538)
Debt	(1,388,140)	(8,617,110)	(905,865)	(7,711,245)
Net investment in capital assets	<u>\$ 2,078,924</u>	<u>\$ 5,375,219</u>	<u>\$ 3,240,980</u>	<u>\$ 2,134,239</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, 2014 the Town had restrictions of net assets of \$313,209 (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”.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

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. The Town budgets capital projects in the General Fund.

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

The Town's budget is comprised of the current operating budget. The current operating budget is based upon estimated revenues and expenditures of operation for the ensuing fiscal year. 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, 2014, the carrying amount of the Town's deposits, including interest receivable, was \$1,967,618. The related bank balances totaled \$2,007,315, including accrued interest.

Following is a schedule of the Town's deposits by financial institution at June 30, 2014:

Susquehanna Bank	\$ 1,909,223
The Columbia Bank	9,714
Wells Fargo Advisors	<u>88,378</u>
	<u><u>\$ 2,007,315</u></u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 3 CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

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, 2014, \$1,659,223 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>\$ 1,659,223</u>
--------------------------------------------------------------------------	---------------------

NOTE 4 INVESTMENTS

As of June 30, 2014, the Town had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Repurchase agreements - Susquehanna Bank	Daily	<u>\$ 2,211,638</u>

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

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

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

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.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 5 NOTE RECEIVABLE

The Town had a note outstanding with 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 was to be paid back over a five year period which began in April 2009, with interest at 0%. The loan was paid off during the year ended June 30, 2014.

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
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	88,762	(1,905)	740,883
Storm drainage	522,548	-	-	522,548
Road improvements	616,753	50,365	-	667,118
Park and playground equipment	1,671,650	12,860	(2,088)	1,682,422
Subtotal	4,839,321	151,987	(3,993)	4,987,315
Accumulated Depreciation				
Buildings	(907,531)	(30,869)	-	(938,400)
Machinery and equipment	(573,503)	(34,589)	1,905	(606,187)
Storm drainage	(401,436)	(3,660)	-	(405,096)
Road improvements	(146,219)	(32,652)	-	(178,871)
Park and playground equipment	(360,926)	(102,980)	2,063	(461,843)
Subtotal	(2,389,615)	(204,750)	3,968	(2,590,397)
NET CAPITAL ASSETS	\$ 3,519,852	\$ (52,763)	\$ (25)	\$ 3,467,064

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 6 CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land and land improvements	\$ 103,845	\$ -	\$ -	\$ 103,845
Capital Assets, Being Depreciated				
Land improvements	5,000	-	-	5,000
Buildings	140,532	-	-	140,532
Machinery and equipment	4,887,535	60,167	(22,235)	4,925,467
Utility plants	16,318,532	21,429	-	16,339,961
Subtotal	21,351,599	81,596	(22,235)	21,410,960
Accumulated Depreciation				
Land improvements	(5,000)	-	-	(5,000)
Buildings	(140,532)	-	-	(140,532)
Machinery and equipment	(2,480,965)	(91,230)	22,235	(2,549,960)
Utility plants	(4,117,713)	(709,271)	-	(4,826,984)
Subtotal	(6,744,210)	(800,501)	22,235	(7,522,476)
NET CAPITAL ASSETS	<u>\$ 14,711,234</u>	<u>\$ (718,905)</u>	<u>\$ -</u>	<u>\$ 13,992,329</u>

DEPRECIATION WAS CHARGED TO FUNCTIONS AS FOLLOWS

Governmental activities

General government	\$ 30,170
Public safety	14,753
Highways & streets	41,449
Recreation and parks	118,378
Total Governmental-Type Activities Depreciation Expense	<u>204,750</u>

Business-Type Activities

Water	155,955
Sewer	644,546
Total Business-Type Activities Depreciation Expense	<u>800,501</u>

TOTAL DEPRECIATION EXPENSE \$ 1,005,251

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 7 OTHER ACCRUED EXPENSES

Other accrued expenses include accrued compensated absences in the amounts of \$9,502 and \$4,700 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 have been made as of June 30, 2014.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Note payable - MDE	\$ 77,028	\$ -	\$ (6,659)	\$ 70,369	\$ 6,726

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.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 8 LONG-TERM DEBT - PROPRIETARY FUND TYPES (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Bond payable - USDA	<u>\$ 5,764,558</u>	<u>\$ -</u>	<u>\$ (66,890)</u>	<u>\$ 5,697,668</u>	<u>\$ 69,864</u>

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. The Town is currently working with MDE to defer the next three annual principal payments on these bonds. See Note 23 for further details.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Bond payable - MDE	<u>\$ 1,631,191</u>	<u>\$ -</u>	<u>\$ (94,518)</u>	<u>\$ 1,536,673</u>	<u>\$ 95,464</u>

In order to cover loan payments for the wastewater treatment plant upgrades due to certain developers not paying, the General Fund made quarterly loans to the Sewer Fund during the year ended June 30, 2014. These loans were made in addition to loans made in the prior year. As of June 30, 2014, the General Fund had loaned a total of \$346,958 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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Note payable - General Fund	<u>\$ 118,850</u>	<u>\$ 228,108</u>	<u>\$ -</u>	<u>\$ 346,958</u>	<u>\$ -</u>

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
General obligation bonds payable	<u>\$ 160,239</u>	<u>\$ -</u>	<u>\$ (15,481)</u>	<u>\$ 144,758</u>	<u>\$ 16,567</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 8 LONG-TERM DEBT - PROPRIETARY FUND TYPES (CONTINUED)

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - MDE	\$ 116,577	\$ -	\$ (5,442)	\$ 111,135	\$ 5,709

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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - MDE	\$ 59,304	\$ -	\$ (3,610)	\$ 55,694	\$ 3,688

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. Total drawn during the duration of the project was \$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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - MDE	\$ 211,806	\$ -	\$ (13,862)	\$ 197,944	\$ 14,001

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 8 LONG-TERM DEBT - PROPRIETARY FUND TYPES (CONTINUED)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - Susquehanna Bank	\$ 259,334	\$ -	\$ (23,000)	\$ 236,334	\$ 23,000

On June 19, 2014, the Town entered into a loan agreement with Susquehanna Bank in the amount of \$160,000. Terms of the note call for 120 monthly interest only payments. In addition to the regularly scheduled interest payments, the Town is required to make annual principal payments of \$16,000 each June beginning June 19, 2015 with the final payment of all unpaid principal and accrued interest to be due and payable June 19, 2024. The interest rate is fixed at 2.99%. The note is prepayable without penalty, is unsecured, and contains right of setoff provisions.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - Susquehanna Bank	\$ -	\$ 160,000	\$ -	\$ 160,000	\$ 16,000

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

Year Ending June 30,	Principal	Interest
2015	\$ 251,019	\$ 301,186
2016	255,560	293,614
2017	261,672	285,763
2018	267,956	277,653
2019	274,690	269,253
2020-2024	1,394,829	1,218,466
2025-2029	1,231,752	1,080,376
2030-2034	723,346	866,674
2035-2039	899,861	690,159
2040-2044	1,119,448	470,572
2045-2049	1,392,622	197,398
2050	137,820	1,567
	<u>\$ 8,210,575</u>	<u>\$ 5,952,681</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 8 LONG-TERM DEBT - PROPRIETARY FUND TYPES (CONTINUED)

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 \$346,958 is also displayed in the noncurrent asset section of the statement of net position.

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, 2014 is \$155,000.

On January 26, 2005, the Town entered into a loan agreement with Susquehanna Bank in which \$2,000,000 was available to fund Shafer Park improvements. The loan is collateralized by park real estate. At June 30, 2014, \$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 2.38% fixed. The note can be prepaid without penalty. The balance of the note at June 30, 2014 is \$1,233,141.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Note Payable - MWQFA	\$ 170,500	\$ -	\$ (15,500)	\$ 155,000	\$ 15,500
Loan Payable - Susquehanna	1,368,451	-	(135,311)	1,233,140	138,512
	<u>\$ 1,538,951</u>	<u>\$ -</u>	<u>\$ (150,811)</u>	<u>\$ 1,388,140</u>	<u>\$ 154,012</u>

Requirements for payments in future years are as follows:

Year Ending June 30,	Principal	Interest
2015	\$ 154,012	\$ 32,055
2016	159,453	27,857
2017	162,884	23,539
2018	167,144	19,095
2019	171,526	14,524
2020-2023	557,621	14,799
2024	15,500	-
	<u>\$ 1,388,140</u>	<u>\$ 131,869</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 10 GOVERNMENTAL FUND BALANCES

The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2014 is as follows:

	<u>General Fund</u>
FUND BALANCES	
Nonspendable	
Long-term loan receivables	\$ 405,838
Prepaid expenses	18,022
	<u>\$ 423,860</u>
Restricted	
Excise tax	\$ 85,499
Hotel/Motel tax	87,580
WWTP	100,024
Friends of Shafer Park	40,106
	<u>\$ 313,209</u>
Committed	
Shafer Park expansion	\$ 86,921
	<u>\$ 86,921</u>
Unassigned	<u>\$ 2,665,879</u>
TOTAL FUND BALANCE	<u>\$ 3,489,869</u>

NOTE 11 DEPOSITS

Deposits in the General Fund, which amounted to \$13,200 at June 30, 2014, 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 curb-side recycling program will be held in an escrow account until the expenses are incurred for the curb-side recycling program.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

NOTE 12 INTERFUND RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as “due to/from other funds” and are the result of activities between funds outstanding at the end of the fiscal year.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 19,836
	Sewer	24,080
Water	General	(77,945)
	Sewer	547 *
Sewer	General	(66,322)
	Water	<u>(547) *</u>
Total		<u><u>\$ (100,351)</u></u>

* This represents the due to/from between business type activities. The total between governmental and business type activities is \$(100,351), net. Amounts owed to the general fund by the business type activities are \$43,916 and amounts owed to the business type activities from the general fund are \$144,267.

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. As of June 30, 2014, the Town 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 2014 was \$36,952.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

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
June 30, 2014

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 has been completed with \$1,500,000 of the costs of the project funded through a construction loan (See Note 9). At June 30, 2014, there was \$2,147,283 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. 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

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

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

During the year ended June 30, 2009, the Town entered into agreements with several developers, under which the Town has agreed to provide an allocated amount of sewer taps which have been guaranteed by the developers and will pay for the first 5 years of debt service related to the construction of the WWTP (See Note 18). These agreements provide for a specific number of taps to be earned by paying the debt service payments timely over the next five years and then an additional predetermined number of taps will be available to the developer. As described in Note 20, an allowance for doubtful accounts has been established as of June 30, 2014.

Included in the Statement of Net Position is unearned revenue – tap fees totaling \$1,598,433 for the year ended June 30, 2014. This will be recognized as revenue when the developers begin to utilize the taps.

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, 2014, the Town has \$594,723 of other receivables recorded related to payments owed by the developers. At this point in time, it appears unlikely that the Town will be able to 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 \$594,723 offsetting the amounts owed by the developers. This has minimal effect on the statement of activities as amounts receivable for tap fees are recorded as unearned revenue – tap fees on the statement of net position. In the current fiscal year, the Town implemented a quarterly debt service fee on water and sewer bills to help fund its debt payments related to the wastewater treatment plant. Although this additional revenue helped to fund these debt payments, the revenue did not cover the debt payments entirely, and therefore the Town still had to make transfers from the General Fund to the Sewer Fund to cover the payments (see Note 8). The debt service fee was rescinded subsequent to year-end.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2014

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, 2014 is \$100,024. This account is currently not being used to make debt service payments, as transfers are being made from the General Fund's regular checking account to cover these debt payments (see Note 20).

Due to limited funding resources that are available to the Town, the Friends of Shafer Park (a separate entity) was established by citizens to support the financial efforts required to achieve the financial obligation associated with the expansion of Shafer Park. In June 2012, the Town established a segregated bank account from an initial contribution of \$40,000. During fiscal year 2014, the balance was rolled over into a certificate of deposit. The balance of the certificate at June 30, 2014 is \$40,106.

NOTE 22 RESTATEMENT

A restatement was necessary in the current year for a change in accounting principle to implement GASB No. 65, *Items Previously Recognized as Assets and Liabilities* in the Water Fund. Previously, all bond and loan issue costs were amortized over the life of the related debt; however, under GASB No. 65, these costs are to be expensed as incurred.

	Water Fund	Business Type Activities
Net Position, as originally stated	\$ 4,088,254	\$ 5,848,645
Restatement	<u>(11,540)</u>	<u>(11,540)</u>
Net Position, as restated	<u>\$ 4,076,714</u>	<u>\$ 5,837,105</u>

NOTE 23 SUBSEQUENT EVENTS

The Town has evaluated events and transactions subsequent to June 30, 2014 through November 13, 2014, 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, 2014 through November 13, 2014 that require recognition or disclosure in the financial statements.

On September 11, 2014, the Town obtained a \$150,000 note payable from Susquehanna Bank to finance various capital improvements projects in the governmental (General) fund. Terms of the note provide for two annual principal payments of \$50,000, commencing May 2015, and one final principal and interest payment of \$50,090 in May 2017. The note also requires monthly interest only payments at a rate of 2.16%. The loan is unsecured.

The Town is currently working with MDE to extend the annual principal payment required on the bonds (Note 8). The Town was offered a two or three year extension and has voted to accept the three year extension. Terms and other conditions are still being finalized.

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures - Budget and Actual - General Fund
Year Ended June 30, 2014 (Unaudited)

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local Property Taxes, Net of Discounts				
Real property	\$ 950,141	\$ 950,141	\$ 956,634	\$ 6,493
Personal property - unincorporated	1,500	1,500	1,118	(382)
Personal property - incorporated	50,000	50,000	52,847	2,847
Penalties and interest	4,000	4,000	6,077	2,077
Discounts allowed	<u>(11,000)</u>	<u>(11,000)</u>	<u>(12,307)</u>	<u>(1,307)</u>
	<u>994,641</u>	<u>994,641</u>	<u>1,004,369</u>	<u>9,728</u>
Licenses and Permits				
Trader's	3,500	3,500	5,517	2,017
Alcoholic beverages	1,000	1,000	749	(251)
Planning and zoning	13,550	13,550	23,944	10,394
	<u>18,050</u>	<u>18,050</u>	<u>30,210</u>	<u>12,160</u>
Grants and Shared Taxes				
State of Maryland				
Income tax	290,000	290,000	341,955	51,955
Admissions	6,000	6,000	8,945	2,945
Highway tax	100,175	100,175	99,236	(939)
Grant for police protection	25,926	25,926	24,065	(1,861)
Other grants	73,500	73,500	88,306	14,806
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	3,217	(783)
Hotel/Motel tax	28,000	28,000	24,732	(3,268)
Parking fines	800	800	300	(500)
	<u>529,351</u>	<u>529,351</u>	<u>591,707</u>	<u>62,356</u>
Charges for Sanitation Services				
	<u>72,240</u>	<u>72,240</u>	<u>73,116</u>	<u>876</u>
Other Revenue				
Interest	6,000	6,000	23,268	17,268
Other income	16,980	16,980	9,343	(7,637)
Cable TV franchise fees	19,500	19,500	20,947	1,447
	<u>42,480</u>	<u>42,480</u>	<u>53,558</u>	<u>11,078</u>
 Total Revenues	 <u>1,656,762</u>	 <u>1,656,762</u>	 <u>1,752,960</u>	 <u>96,198</u>

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures - Budget and Actual - General Fund
Year Ended June 30, 2014 (Unaudited)

(Continued)

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General Government				
Mayor and Council				
Salaries	\$ 76,900	\$ 76,900	\$ 83,375	\$ (6,475)
Operating expenses	24,200	24,200	28,280	(4,080)
Contributions and donations	1,000	1,000	900	100
Treasurer - salary	1,000	1,000	1,000	-
Legal, audit and retirement administration	17,750	17,750	22,431	(4,681)
Planning and zoning	70,675	70,675	55,302	15,373
Town building operating expenses	62,000	62,000	67,540	(5,540)
Elections	300	300	337	(37)
Economic Development Commission	3,000	3,000	9,615	(6,615)
Environmental Commission	10,000	10,000	-	10,000
	266,825	266,825	268,780	(1,955)
Total General Government				
Public Safety				
Police department				
Chief salary	48,970	48,970	53,560	(4,590)
Officer salaries	127,352	127,352	120,571	6,781
K-9	1,000	1,000	651	349
Equipment	13,000	13,000	14,648	(1,648)
Uniforms	3,000	3,000	6,847	(3,847)
Supplies	2,000	2,000	2,338	(338)
Telephone	1,500	1,500	1,936	(436)
Cell phones	1,900	1,900	3,129	(1,229)
Training	1,500	1,500	515	985
Building maintenance	8,500	8,500	8,799	(299)
Vehicle maintenance	6,000	6,000	7,518	(1,518)
Vehicle gas	18,000	18,000	13,103	4,897
Other police and public safety expenses	-	-	(520)	520
Police and public safety committee meetings	700	700	640	60
Night Out expense	1,250	1,250	1,359	(109)
Volunteer company contributions				
Fire department	19,000	19,000	19,000	-
Fire hydrants	11,200	11,200	9,925	1,275
Ambulance service	19,000	19,000	19,000	-
	283,872	283,872	283,019	853
Total Public Safety				
Highways and Streets				
Salaries	112,500	112,500	129,495	(16,995)
Street lighting	65,000	65,000	61,288	3,712
Maintenance and operating expenses	57,100	57,100	66,786	(9,686)
Snow removal	10,000	10,000	38,349	(28,349)
	244,600	244,600	295,918	(51,318)
Total Highways and Streets				
Sanitation	172,983	172,983	171,777	1,206

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures - Budget and Actual - General Fund
Year Ended June 30, 2014 (Unaudited)

(Continued)

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Recreation and Parks				
Salaries	\$ 770	\$ 770	\$ 660	\$ 110
Park grounds maintenance	13,000	13,000	15,342	(2,342)
Park facilities maintenance	9,000	9,000	10,599	(1,599)
Operating expenses	13,050	13,050	16,638	(3,588)
Total Recreation and Parks	35,820	35,820	43,239	(7,419)
Non-Departmental Expenditures				
Insurance	13,400	13,400	15,982	(2,582)
Health insurance	100,000	100,000	91,816	8,184
Retirement	29,400	29,400	24,908	4,492
Workers compensation	15,200	15,200	15,714	(514)
Payroll taxes	35,000	35,000	33,075	1,925
Contingency fund	60,252	60,252	83,810	(23,558)
Miscellaneous expense	-	-	9,513	(9,513)
Total Non-Departmental Expenditures	253,252	253,252	274,818	(21,566)
Capital Outlay				
Equipment	53,500	53,500	-	53,500
Police department capital expense	40,000	40,000	-	40,000
Long-term capital improvements	115,000	115,000	151,987	(36,987)
Total Capital Outlay	208,500	208,500	151,987	56,513
Debt Retirement				
Park expansion loan interest	175,410	175,410	38,218	137,192
Park expansion principal	-	-	135,311	(135,311)
Mortgage wellhead protection property	15,500	15,500	15,500	-
Total Debt Retirement	190,910	190,910	189,029	1,881
Total Expenditures	1,656,762	1,656,762	1,678,567	(21,805)
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	74,393	<u>\$ 74,393</u>
FUND BALANCE - BEGINNING OF YEAR			3,415,476	
FUND BALANCE - END OF YEAR			<u>\$ 3,489,869</u>	

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures – Budget and Actual – Water Utility Fund
(Budgetary Basis)
Year Ended June 30, 2014 (Unaudited)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 365,000	\$ 365,000	\$ 366,341	\$ 1,341
Charges for debt services	-	-	22,475	22,475
Charges for administration	45,196	45,196	41,282	(3,914)
Connection charges and other income	65,100	65,100	11,200	(53,900)
Total Operating Revenues	475,296	475,296	441,298	(33,998)
OPERATING EXPENSES				
Maintenance and repairs	45,000	45,000	21,388	23,612
Chemicals	10,000	10,000	14,037	(4,037)
Electricity	50,000	50,000	48,355	1,645
Heating	1,500	1,500	1,616	(116)
Telephone	4,500	4,500	5,475	(975)
Advertising	-	-	1,374	(1,374)
Salaries	112,000	112,000	109,405	2,595
Insurance	14,000	14,000	13,169	831
Health/life insurance expense	34,000	34,000	17,044	16,956
Audit	6,000	6,000	6,500	(500)
Legal fees	500	500	-	500
Supplies	6,000	6,000	9,048	(3,048)
Miscellaneous	100	100	(3,521)	3,621
Uniforms	1,000	1,000	1,174	(174)
Professional memberships	1,000	1,000	-	1,000
Meeting expense	1,200	1,200	2,225	(1,025)
Payroll taxes	8,000	8,000	8,311	(311)
Pension expense	8,000	8,000	6,022	1,978
Testing	1,000	1,000	1,273	(273)
Truck expense	8,000	8,000	8,052	(52)
Equipment expense	2,500	2,500	315	2,185
Engineering fees	3,000	3,000	15,241	(12,241)
Contingency fund	28,965	28,965	46,702	(17,737)
Postage	1,500	1,500	1,568	(68)
Capital outlay	43,800	43,800	54,355	(10,555)
Total Operating Expenses	391,565	391,565	389,128	2,437
Operating Income	83,731	83,731	52,170	(31,561)
OTHER REVENUES AND (EXPENSES)				
Interest expense	(29,935)	(29,935)	(32,870)	(2,935)
Debt service (principal)	(44,196)	(44,196)	(61,394)	(17,198)
Other income	11,200	11,200	650	(10,550)
Interest income	400	400	1,681	1,281
Total other revenues and (expenses)	(62,531)	(62,531)	(91,933)	(29,402)
NET INCOME (LOSS)	\$ 21,200	\$ 21,200	\$ (39,763)	\$ (60,963)

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

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures – Budget and Actual – Sewer Utility Fund
(Budgetary Basis)
Year Ended June 30, 2014 (Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for services	\$ 533,200	\$ 533,200	\$ 620,856	\$ 87,656
Grants	9,540	9,540	-	(9,540)
Connection charges and other income	-	-	7,541	7,541
Total Operating Revenues	<u>542,740</u>	<u>542,740</u>	<u>628,397</u>	<u>85,657</u>
OPERATING EXPENSES				
Maintenance and repairs	63,000	63,000	64,533	(1,533)
Chemicals	55,000	55,000	38,996	16,004
Biosolids removal	100,000	100,000	87,942	12,058
Electricity	55,000	55,000	79,219	(24,219)
Heating	1,500	1,500	1,478	22
Telephone	3,700	3,700	4,099	(399)
Salaries	112,000	112,000	108,994	3,006
Insurance	40,000	40,000	30,807	9,193
Health/life insurance expense	34,000	34,000	16,937	17,063
Advertising	-	-	1,242	(1,242)
Audit	6,000	6,000	6,500	(500)
Supplies	8,500	8,500	6,310	2,190
Contingency fund	9,358	9,358	200	9,158
Uniforms	1,000	1,000	1,162	(162)
Professional memberships	500	500	210	290
Meeting expense	1,200	1,200	1,210	(10)
Payroll taxes	8,000	8,000	8,280	(280)
Pension expense	8,000	8,000	6,022	1,978
Testing	20,000	20,000	21,531	(1,531)
Truck expense	4,000	4,000	2,856	1,144
Equipment expense	2,500	2,500	-	2,500
Engineering fees	2,000	2,000	11,521	(9,521)
Postage	1,200	1,200	1,846	(646)
Capital outlay	20,000	20,000	27,241	(7,241)
Total Operating Expenses	<u>556,458</u>	<u>556,458</u>	<u>529,136</u>	<u>27,322</u>
Operating Income (Loss)	<u>(13,718)</u>	<u>(13,718)</u>	<u>99,261</u>	<u>112,979</u>
OTHER REVENUES AND (EXPENSES)				
Interest expense	(770)	(770)	(270,468)	(269,698)
Debt service (principal)	(7,012)	(7,012)	(168,068)	(161,056)
Other income	1,200	1,200	29,921	28,721
Interest income	300	300	1,289	989
Total other revenues and (expenses)	<u>(6,282)</u>	<u>(6,282)</u>	<u>(407,326)</u>	<u>(401,044)</u>
NET (LOSS)	<u>\$ (20,000)</u>	<u>\$ (20,000)</u>	<u>\$ (308,065)</u>	<u>\$ (288,065)</u>

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 PATTERS
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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 13, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control 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 certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-1 through 2014-9 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2014-9.

Mayor and Council of Boonsboro's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Kearns & Company, LLC

Hagerstown, Maryland
November 13, 2014

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2014

FINDING 2014-1

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:	Town staff will implement procedures to follow the above recommendations to ensure monthly reconciliations will occur for all accounts and are reviewed by the Town Manager.

FINDING 2014-2

Criteria:	During the audit several bank accounts were found to not be properly and completely reconciled.
Condition/ Context:	Monthly bank account reconciliations are the primary internal control procedure related to the Town's cash accounts. During FY 2014, bank account reconciliations were prepared; however, several accounts were not completely reconciled and two accounts were not reconciled for the year. We noted one account that had an immaterial unreconciled difference. However, upon further investigation we noted that the difference obscured significant but offsetting items (transfers into the account from another account and disbursements out of the account). Had the immaterial amount been properly reconciled, management would most likely have noticed the larger

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2014

transactions that were missing from the general ledger. We also noted that some checks on two bank account reconciliations had been outstanding for long periods of time, in some instances for a year or more. Through discussions with management, it was determined that the status of these “stale” checks had not been investigated. We further noted that on two bank account reconciliations, there were uncleared reconciling items, in some cases more than a year old. We also noted line items for “unreconciled differences” on one bank reconciliation. Lastly, we noted on one bank account reconciliation that two deposits in transit were missing, thereby causing the general ledger balance at year-end to be understated. These deposits came from other (utility) funds, and they were properly recorded as outstanding checks on the utility fund general ledgers, but were not posted as deposits in transit in the general fund.

Cause: The Town has not properly reconciled its bank accounts.

Effect: The financial statements could have been misstated or incomplete. The Town’s internal control system alone may not have identified this. Additionally, the Treasurer’s Reports provided to the Council each month could be unreliable.

Recommendation: We recommend that Town management perform monthly bank reconciliations within 15 to 30 days of the month-end and that reconciling items are resolved within 45 to 60 days from the date they are identified. This will ensure timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported. This will also ensure that monthly reports to the Mayor and Council can be more easily relied upon to provide accurate financial information.

Management Response: Town staff will implement procedures to ensure monthly reconciliations are occurring and outstanding items are resolved within a 45 to 60-day period.

FINDING 2014-3

Criteria: During our documentation of internal control processes, we noted that there is no independent review of bank reconciliations.

Condition/ Context: Due to the nature and size of the Town, the same person who receives and opens the bank statements also prepares the monthly bank reconciliations and is responsible for preparing and posting journal entries to the general ledger. To mitigate the potential risk of intentional fraud or unintentional errors, bank reconciliations should be reviewed by someone independent of the person who prepares them.

Cause: The Town does not have an independent review of bank reconciliations.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2014

Effect: Bank reconciliations could be incomplete, inaccurate, or not performed altogether. The Town's cash balances as reported to the Mayor and Council on monthly Treasurer's reports could be inaccurate.

Recommendation: We recommend that either the Town Manager, Mayor, or Council Treasurer review monthly bank reconciliations in a timely manner and to document that review by signing off on the reconciliations.

Management Response: A new bank reconciliation procedure will include the review of the monthly bank reconciliations by the Town Manager.

FINDING 2014-4

Criteria: During our documentation of internal control processes and our testing of a selection of journal entries posted throughout the year, we noted that there is no independent review of adjusting entries made during the year. We further noted that some journal entries were missing documentation to support the transaction.

Condition/Context: During our inquiries of Town personnel and testing of a selection of journal entries, we noted that there is no independent review of accounting entries prepared and posted to the general ledger by the town clerk. As a result, various items were found to be posted incorrectly. We also noted missing supporting documentation for three journal entries tested (out of a sample size of 30).

Cause: There is no independent review of adjusting journal entries. There are also entries missing supporting documentation.

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

Recommendation: We recommend that someone independent of the person preparing and posting journal entries review them for accuracy. We also recommend that sufficient support be retained for entries in order to provide for an adequate audit trail.

Management Response: Town Staff will establish a procedure for adjusting entries that includes the independent review by the Town Manager for adjusting entries as well as a review of all entries.

FINDING 2014-5

Criteria: During the audit, we noted that due to and due from account reconciliations were not performed.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2014

Condition/Context: Our audit procedures revealed that the due to and due from accounts between funds were not in agreement and had not been properly reconciled during the year.

Cause: Transactions between the Town's general, water, and sewer funds were not properly recorded and the due to and due from accounts were not reconciled.

Effect: The financial statements could have been misstated or incomplete. The amounts due to and from the funds could be inaccurate and proper reimbursements would not be made.

Recommendation: We recommend that transactions between two or more funds be properly recorded in both funds in the proper accounts and be reconciled on a monthly basis.

Management Response: Due to and due from accounts will be eliminated on the receivable side to ensure accurate balances in the Town's general, water, and sewer funds. Due to and due froms will still occur for payables, and an independent review will occur to ensure accuracy and the correct reconciliation.

FINDING 2014-6

Criteria: During the course of our fieldwork, we noted that investments are not being properly reconciled.

Condition/Context: We noted that accrued interest was not being consistently recorded on certificates of deposit.

Cause: The Town has not reconciled investment accounts per the general ledger to investment/bank statements.

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

Recommendation: We recommend that monthly investment reconciliations be performed to ensure that all investment transactions, including accrued interest, are properly accounted for in the financial statements.

Management Response: A future monthly bank reconciliation policy and procedure will include investment accounts.

FINDING 2014-7

Criteria: During our documentation of internal control processes and testing of investments, we noted that there is no documentation of approval of investment transactions.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2014

Condition/ Context:	During our inquiries with Town personnel and our walkthrough of internal controls over investments, we noted that there is no documentation of approval of investment transactions (e.g. the purchase or redemption of certificates of deposit). Per our discussions, we noted that the Town does not have a formal investment policy; however, it is standard procedure to have the Mayor and Council approve transactions in the monthly Council minutes. Documentation of approvals helps to provide a proper audit trail of the Town's investment decisions.
Cause:	The Town does not have documented approval of investment transactions.
Effect:	Investments could be purchased or redeemed without proper approval.
Recommendation:	We recommend that approval of investment transactions be documented in the Mayor and Council minutes to verify that the transactions were properly authorized.
Management Response:	We agree to the recommendation and will ensure proper approval and documentation for investments will occur.

FINDING 2014-8

Criteria:	During the course of our audit we noted that two supervisors are not reviewing time cards prior to submission to the Town clerk for payroll processing.
Condition/ Context:	Part of the Town's internal control procedures include proper approval of time cards by supervisors prior to payroll processing. During our walkthrough of payroll, we noted that two supervisors are not reviewing (or are not documenting their review of) time cards of their employees prior to submitting them for payroll processing. Verification of hours worked is essential to ensuring that employees are only paid for hours actually worked.
Cause:	Hours worked by Town employees are not being reviewed prior to submission for payroll processing.
Effect:	Employees could be documenting hours worked in excess of the actual time spent on the job. Employees could therefore be overpaid for time not actually worked.
Recommendation:	We recommend that that all supervisors document their review of their employees' time cards prior to submitting the time cards to the town clerk for payroll processing.
Management Response:	Management acknowledges that oversight from the supervisors is needed and will advise staff to begin reviewing and approving time sheets prior to submission for payroll processing.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2014

FINDING 2014-9

Criteria:	The Town must complete a physical inventory of the Wastewater Treatment Plant (WWTP) property and enhance the current level of documentation to be in compliance with the United States Department of Agriculture (USDA) grant documents.
Condition/ Context:	The Town has not compiled a complete list of all materials used in the construction of the WWTP project and has not completed a full inventory to be in compliance with USDA grant documents.
Cause:	A complete inventory of the WWTP was not completed prior to December 31, 2013.
Effect:	The Town could be forced to repay the grant money plus interest as stipulated in the grant agreement.
Recommendation:	We recommend that the Town immediately perform a detailed inventory in accordance with the requirements set forth in the USDA grant agreement.
Management Response:	Management agrees to the above recommendation and will ensure compliance with the USDA grant requirements.