

Audited  
Financial  
Statements

June 30,  
2015

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# Mayor and Council of Boonsboro



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## 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, 2015, 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, 2015, 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 October 29, 2015 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  
October 29, 2015

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**Unaudited**

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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, 2015. 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**

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The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$10,273,674. The net position of the governmental activities was \$5,639,706 and the combined net position of business-type activities was \$4,633,968. Of the combined net position of the governmental and business-type activities, \$3,153,373 may be used to meet the Town's ongoing obligations to citizens and creditors.

**USING THIS ANNUAL FINANCIAL REPORT**

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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**

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***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 2015". 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, 2015. 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.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**Unaudited**

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- **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, 2015. 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 20-26 in the Notes to the Financial Statements.

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**REPORTING ON THE TOWN OF BOONSBORO'S MOST SIGNIFICANT FUNDS**

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***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.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**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, 2015 and 2014.

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2015	2014	2015	2014	2015	2014	
<b>ASSETS</b>							
Current and other assets	\$ 3,700,877	\$ 3,696,612	\$ 812,604	\$ 962,042	\$ 4,513,481	\$ 4,658,654	-3%
Capital assets, net	3,438,964	3,467,064	13,429,946	13,992,329	16,868,910	17,459,393	-3%
Total Assets	7,139,841	7,163,676	14,242,550	14,954,371	21,382,391	22,118,047	
<b>LIABILITIES</b>							
Other liabilities	166,714	206,743	1,560,790	1,743,962	1,727,504	1,950,705	-11%
Long-term liabilities	1,333,421	1,388,140	8,047,792	8,210,575	9,381,213	9,598,715	-2%
Total Liabilities	1,500,135	1,594,883	9,608,582	9,954,537	11,108,717	11,549,420	
<b>NET POSITION</b>							
Net investment in capital assets	2,105,543	2,078,924	4,711,773	5,375,219	6,817,316	7,454,143	-9%
Restricted - Excise tax	85,861	85,499	-	-	85,861	85,499	0%
Restricted - WWTP	100,122	100,024	1,018	39,139	101,140	139,163	-27%
Restricted - Hotel/Motel tax	75,708	87,580	-	-	75,708	87,580	-14%
Restricted - Friends of Shafer Park	40,276	40,106	-	-	40,276	40,106	0%
Unrestricted (Deficit)	3,232,196	3,176,660	(78,823)	(414,524)	3,153,373	2,762,136	14%
Total Net Position	\$ 5,639,706	\$ 5,568,793	\$ 4,633,968	\$ 4,999,834	\$ 10,273,674	\$ 10,568,627	

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.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**Unaudited**

The Town's net position from governmental activities increased 1% from \$5,568,791 to \$5,639,706. Net investment in capital assets increased \$26,619 due to payments of debt, as well as depreciation of the existing assets and new acquisitions and disposals. Unrestricted net position increased \$55,538. The Town's assets decreased 0.3% from \$7,163,676 to \$7,139,841 due to investment balances decreasing and disposals of fixed assets offset by an increase in loans receivable from the sewer fund. Liabilities have decreased \$94,748 as a result of the general fund repaying principal balances on existing loans, offset by the issuance of one new loan to help fund CIP projects.

The Town's net position from business-type activities decreased 7% from \$4,999,834 to \$4,633,968. Net investment in capital assets decreased \$663,446 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) increased \$335,701. The Town's assets decreased 5% from \$14,954,371 to \$14,242,550 as a result of the increase in net payable due to the general fund for the wastewater treatment plant debt and depreciation. Liabilities have decreased \$345,955 as a result of the water and sewer funds repaying principal balances on existing loans, offset by the issuance of additional funds from the general fund to the sewer fund to make payments on the wastewater treatment plant debt.

The following table presents condensed information on the changes in net position for the years ended June 30, 2015 and 2014.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>REVENUES</b>						
<b>Program Revenues</b>						
Charges for services	\$ 130,212	\$ 112,036	\$ 1,779,725	\$ 1,069,695	\$ 1,909,937	\$ 1,181,731
Operating grants and contributions	60,891	44,597	-	-	60,891	44,597
Capital grants and contributions	5,946	67,774	-	-	5,946	67,774
<b>General Revenues</b>						
Income taxes	344,565	341,955	-	-	344,565	341,955
Property taxes	1,018,042	1,004,369	-	-	1,018,042	1,004,369
Other shared and local taxes and grants	165,530	137,081	-	-	165,530	137,081
Investment earnings	21,872	23,268	2,413	2,970	24,285	26,238
Miscellaneous income/(expenses)	23,238	21,881	-	30,571	23,238	52,452
(Loss) on disposal of capital assets	-	(25)	(14,490)	-	(14,490)	(25)
Total Revenues	<u>1,770,296</u>	<u>1,752,936</u>	<u>1,767,648</u>	<u>1,103,236</u>	<u>3,537,944</u>	<u>2,856,172</u>
<b>EXPENSES</b>						
General government/non-departmental	599,705	611,986	-	-	599,705	611,986
Public safety	424,612	297,772	-	-	424,612	297,772
Highways and streets	350,661	337,367	-	-	350,661	337,367
Sanitation	168,075	171,777	-	-	168,075	171,777
Recreation and parks	156,328	161,618	-	-	156,328	161,618
Water	-	-	614,439	523,598	614,439	523,598
Sewer	-	-	1,519,075	1,416,909	1,519,075	1,416,909
Total Expenses	<u>1,699,381</u>	<u>1,580,520</u>	<u>2,133,514</u>	<u>1,940,507</u>	<u>3,832,895</u>	<u>3,521,027</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 70,915</u>	<u>\$ 172,416</u>	<u>\$ (365,866)</u>	<u>\$ (837,271)</u>	<u>\$ (294,951)</u>	<u>\$ (664,855)</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**Unaudited**

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**GOVERNMENTAL ACTIVITIES – CHANGE IN NET POSITION**

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Governmental activities increased the Town's net position by \$70,915. Key elements of this increase are as follows:

- State shared income taxes exceeded budget by \$95,565. This is the result of an increase in MD taxes generated from income tax returns in the local area.
- Planning and zoning licenses exceed budget by \$21,649. This is the result of an increase in residential construction in the Town and the collection of related permit and development and engineer review fees.
- Capital outlay expenses were under budget by \$114,534. The Town has been conservative in spending and has tried to only spend what was necessary.

**BUSINESS-TYPE ACTIVITIES – CHANGE IN NET POSITION**

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Business-type activities decreased the Town's net position by \$365,866. 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 \$780,854 in FY 2015.
- Interest expense and principal repayment expense for the water and sewer funds were much higher than budget due to the fact that both budgets were missing debt service on a few loans.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND FINANCIAL STATEMENTS**

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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 \$3,534,163, an increase of \$44,294 from the prior year. Approximately 70% of this total amount (\$2,484,764) 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.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**Unaudited**

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**BUDGETARY HIGHLIGHTS**

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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. 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 2015.

**CAPITAL ASSET AND DEBT ADMINISTRATION – GOVERNMENT-WIDE STATEMENT**

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***Capital Asset Activity***

The Town's investment in capital assets for its governmental and business type activities as of June 30, 2015 amounted to \$16,868,910 (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 \$166,803 for the governmental funds and \$232,961 for the business-type activities. The total disposals to the Town's investment in capital assets for the current fiscal year were \$27,395 for the governmental funds and \$50,857 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, 2015 and 2014.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Outstanding Debt</u>		<u>% Change</u>
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	
Loans outstanding	\$ 1,333,421	\$ 1,388,140	\$ 7,919,601	\$ 8,065,817	\$ 9,253,022	\$ 9,453,957	-2%
General obligation bonds	-	-	128,191	144,758	128,191	144,758	-11%
Total debt	<u>\$ 1,333,421</u>	<u>\$ 1,388,140</u>	<u>\$ 8,047,792</u>	<u>\$ 8,210,575</u>	<u>\$ 9,381,213</u>	<u>\$ 9,598,715</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**

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The Town continually seeks grants to support revenue, in addition to State and Federal financial support to sustain essential services and programs. Property tax revenue for the Town will continue to remain as the primary source of revenue for the Town's general fund, due to decreasing financial support from state and federal programs.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**  
**Unaudited**

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

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**

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This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Town's finances. If you have any questions or need additional financial information, please contact the Town Manager, Town of Boonsboro, 21 N. Main Street, Boonsboro, MD 21713.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Net Position**  
**June 30, 2015**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 113,962	\$ 52,409	\$ 166,371
Cash - restricted - WWTP	100,122	-	100,122
Certificates of deposit, including accrued interest	1,087,886	552,073	1,639,959
Certificate of deposit - restricted - Friends of Shafer Park	40,276	-	40,276
Investments	1,693,897	319,830	2,013,727
Receivables			
Sanitation service	15,444	-	15,444
Taxes, net of allowance for uncollectible taxes of \$1,168	20,839	-	20,839
Sewer service	-	242,277	242,277
Water service	-	191,158	191,158
Due from other governmental agencies	64,667	-	64,667
Other, net of allowance for doubtful accounts of \$594,723	-	-	-
Prepaid expenses	18,641	-	18,641
Total Current Assets	<u>3,155,734</u>	<u>1,357,747</u>	<u>4,513,481</u>
<b>Noncurrent</b>			
Loans receivable/payable - other funds	669,684	(669,684)	-
Due to/from other funds	(124,541)	124,541	-
Capital assets, net of accumulated depreciation	3,438,964	13,429,946	16,868,910
Total Noncurrent Assets	<u>3,984,107</u>	<u>12,884,803</u>	<u>16,868,910</u>
Total Assets	<u>7,139,841</u>	<u>14,242,550</u>	<u>21,382,391</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Outstanding checks in excess of bank balance	-	40,474	40,474
Current maturities of long-term obligations	208,745	161,318	370,063
Matured bonds payable	-	697	697
Accounts payable	109,120	69,814	178,934
Due to other government	1,152	-	1,152
Unearned revenue - tap fees	-	1,389,433	1,389,433
Accrued interest	-	35,166	35,166
Other accrued expenses	53,242	24,906	78,148
Deposits	3,200	300	3,500
Total Current Liabilities	<u>375,459</u>	<u>1,722,108</u>	<u>2,097,567</u>
<b>Noncurrent</b>			
Note payable - MDE, net	-	99,437	99,437
Note payable - MWQFA, net	124,000	-	124,000
Note payable - Susquehanna Bank - Park improvements	950,676	-	950,676
Note payable - Susquehanna Bank - CIP projects	50,000	-	50,000
Note payable - MDE - Park View sewer rehabilitation, net	-	56,850	56,850
Note payable - MDE - Alt. 40 Extension	-	48,236	48,236
Note payable - MDE - Alt. 40 Extension #2	-	169,802	169,802
Bond payable - WWTP upgrade - USDA	-	5,554,411	5,554,411
Bond payable - WWTP upgrade - MDE	-	1,528,866	1,528,866
Note payable - Susquehanna Bank - SHA Main St. Waterline	-	190,334	190,334
Note payable - Susquehanna Bank - Maple Ave. Waterline	-	128,000	128,000
General obligation bonds payable, net	-	110,538	110,538
Total Noncurrent Liabilities	<u>1,124,676</u>	<u>7,886,474</u>	<u>9,011,150</u>
Total Liabilities	<u>1,500,135</u>	<u>9,608,582</u>	<u>11,108,717</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,105,543	4,711,773	6,817,316
Restricted - Excise tax	85,861	-	85,861
Restricted - Hotel/Motel tax	75,708	-	75,708
Restricted - WWTP	100,122	1,018	101,140
Restricted - Friends of Shafer Park	40,276	-	40,276
Unrestricted (deficit)	3,232,196	(78,823)	3,153,373
<b>TOTAL NET POSITION</b>	<u>\$ 5,639,706</u>	<u>\$ 4,633,968</u>	<u>\$ 10,273,674</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Activities**  
**Year Ended June 30, 2015**

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
<b>PRIMARY GOVERNMENTS</b>							
<b>Governmental Activities</b>							
General government	\$ 308,648	\$ 46,073	\$ 35,000	\$ -	\$ (227,575)	\$ -	\$ (227,575)
Public safety	424,612	120	25,891	-	(398,601)	-	(398,601)
Sanitation	168,075	73,424	-	-	(94,651)	-	(94,651)
Highways and streets	350,661	-	-	-	(350,661)	-	(350,661)
Recreation and parks	156,328	10,595	-	5,946	(139,787)	-	(139,787)
Non-departmental	291,057	-	-	-	(291,057)	-	(291,057)
Total Governmental Activities	<u>1,699,381</u>	<u>130,212</u>	<u>60,891</u>	<u>5,946</u>	<u>(1,502,332)</u>	<u>-</u>	<u>(1,502,332)</u>
<b>Business-Type Activities</b>							
Water	614,439	741,025	-	-	-	126,586	126,586
Sewer	1,519,075	1,038,700	-	-	-	(480,375)	(480,375)
Total Business-Type Activities	<u>2,133,514</u>	<u>1,779,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(353,789)</u>	<u>(353,789)</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 3,832,895</u>	<u>\$ 1,909,937</u>	<u>\$ 60,891</u>	<u>\$ 5,946</u>	<u>(1,502,332)</u>	<u>(353,789)</u>	<u>(1,856,121)</u>
<b>GENERAL REVENUES</b>							
Taxes							
Income Taxes					344,565	-	344,565
Property taxes, levied for general purposes					1,018,042	-	1,018,042
Other shared and local taxes and grants					165,530	-	165,530
Miscellaneous revenues					23,238	-	23,238
Interest and investment earnings					21,872	2,413	24,285
(Loss) on disposal of capital assets					-	(14,490)	(14,490)
Total General Revenues					<u>1,573,247</u>	<u>(12,077)</u>	<u>1,561,170</u>
Change in net position					70,915	(365,866)	(294,951)
<b>NET POSITION - BEGINNING OF YEAR</b>					<u>5,568,791</u>	<u>4,999,834</u>	<u>10,568,625</u>
<b>NET POSITION - END OF YEAR</b>					<u>\$ 5,639,706</u>	<u>\$ 4,633,968</u>	<u>\$ 10,273,674</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Balance Sheet - Governmental Fund**  
**June 30, 2015**

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	<b>General Fund</b>
<b>ASSETS</b>	
Cash	\$ 113,962
Cash - restricted - WWTP	100,122
Certificates of deposit, including accrued interest	1,087,886
Certificates of deposit - restricted - Friends of Shafer Park	40,276
Investments	1,693,897
Accounts receivable	80,111
Property taxes receivable, net of allowance for uncollectible taxes of \$1,168	20,839
Loans receivable from sewer fund	669,684
Due from other funds	56,979
Prepaid expenses	<u>18,641</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,882,397</u></b>
<b>LIABILITIES</b>	
Accounts payable	\$ 109,120
Accrued expenses	53,242
Deposits	3,200
Due to other government	1,152
Due to other funds	<u>181,520</u>
Total Liabilities	<u>348,234</u>
<b>FUND BALANCE</b>	
Nonspendable	688,325
Restricted	301,967
Committed	59,105
Unassigned	<u>2,484,766</u>
Total Fund Balance	<u>3,534,163</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 3,882,397</u></b>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Reconciliation of Fund Balance to Net Position of Governmental Activities**  
**June 30, 2015**

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**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS** \$ 3,534,163

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 3,438,964

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 (1,333,421)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** \$ 5,639,706

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues, Expenditures and Changes In Fund Balance**  
**Governmental Fund**  
**Year Ended June 30, 2015**

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	<b>General Fund</b>
<b>REVENUES</b>	
Local property taxes, net of discounts	\$ 1,018,042
Licenses and permits	44,707
Grants and shared taxes	577,052
Charges for services	73,424
Other revenue	<u>57,071</u>
Total Revenues	<u>1,770,296</u>
<b>EXPENDITURES</b>	
General government	278,038
Public safety	405,375
Highways and streets	315,491
Sanitation	168,075
Recreation and parks	46,442
Non-departmental expenditures	261,460
Capital outlay	166,803
Debt retirement - interest	29,597
Debt retirement - principal	<u>204,721</u>
Total Expenditures	<u>1,876,002</u>
Deficiency of Revenues Under Expenditures	(105,706)
<b>OTHER FINANCING SOURCES</b>	
Loan financing for CIP projects	<u>150,000</u>
Net Change in Fund Balance	44,294
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>3,489,869</u>
<b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 3,534,163</u></u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2015**

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**NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS** \$ 44,294

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

Governmental 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. 166,803

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. (194,903)

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. 54,721

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 70,915

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Net Position – Proprietary Funds**  
**June 30, 2015**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 52,409	\$ -	\$ 52,409
Certificates of deposit, including accrued interest	329,383	222,690	552,073
Investments	143,082	176,748	319,830
Receivables:			
Sewer service	-	242,277	242,277
Water service	191,158	-	191,158
Other, net of allowance for doubtful accounts of \$594,723	-	-	-
Due from other funds	86,634	94,762	181,396
<b>Total Current Assets</b>	<b>802,666</b>	<b>736,477</b>	<b>1,539,143</b>
<b>Fixed Assets</b>			
Property, plant and equipment	7,346,327	14,350,582	21,696,909
Less accumulated depreciation	(3,121,850)	(5,145,113)	(8,266,963)
	4,224,477	9,205,469	13,429,946
<b>TOTAL ASSETS</b>	<b>\$ 5,027,143</b>	<b>\$ 9,941,946</b>	<b>\$ 14,969,089</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Outstanding checks in excess of bank balance	-	40,474	40,474
Current maturities of long-term obligations	80,553	80,765	161,318
Matured bonds payable	-	697	697
Accounts payable	44,268	25,546	69,814
Unearned revenue - tap fees	2,000	1,387,433	1,389,433
Deposits	-	300	300
Due to other funds	27,681	29,174	56,855
Accrued interest	3,494	31,672	35,166
Accrued compensated absences	3,885	3,885	7,770
Accrued pension expense	8,568	8,568	17,136
<b>Total Current Liabilities</b>	<b>170,449</b>	<b>1,608,514</b>	<b>1,778,963</b>
<b>Noncurrent Liabilities</b>			
Note payable - Park View sewer rehabilitation	-	56,850	56,850
Loan payable - General Fund	-	58,880	58,880
Loan payable - General Fund #2	-	610,804	610,804
Bond payable - WWTP upgrade - USDA	-	5,554,411	5,554,411
Bond payable - WWTP upgrade - MDE	-	1,528,866	1,528,866
Note payable - MDE	99,437	-	99,437
Note payable - MDE - Alt. 40 Extension	48,236	-	48,236
Note payable - MDE - Alt. 40 Extension #2	169,802	-	169,802
General obligation bonds payable	110,538	-	110,538
Note payable - Susquehanna Bank - SHA Main St. Waterline	190,334	-	190,334
Note payable - Susquehanna Bank - Maple Ave. Waterline	128,000	-	128,000
<b>Total Noncurrent Liabilities</b>	<b>746,347</b>	<b>7,809,811</b>	<b>8,556,158</b>
<b>Total Liabilities</b>	<b>916,796</b>	<b>9,418,325</b>	<b>10,335,121</b>
<b>NET POSITION</b>			
Net investment in capital assets	3,397,577	1,314,196	4,711,773
Restricted - WWTP	-	1,018	1,018
Unrestricted (Deficit)	712,770	(791,593)	(78,823)
<b>Total Net Position</b>	<b>4,110,347</b>	<b>523,621</b>	<b>4,633,968</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 5,027,143</b>	<b>\$ 9,941,946</b>	<b>\$ 14,969,089</b>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds**  
**Year Ended June 30, 2015**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 510,717	\$ 799,700	\$ 1,310,417
Charges for debt service	22,939	-	22,939
Charges for administration	52,619	-	52,619
Grants	-	30,000	30,000
Connection charges	154,750	209,000	363,750
Total Operating Revenues	<u>741,025</u>	<u>1,038,700</u>	<u>1,779,725</u>
<b>OPERATING EXPENSES</b>			
Depreciation	137,171	643,683	780,854
Advertising	505	670	1,175
Maintenance and repairs	37,610	48,095	85,705
Chemicals	14,286	37,148	51,434
Biosolids removal	-	167,008	167,008
Electricity	60,502	89,355	149,857
Heating	1,489	1,489	2,978
Telephone	6,057	4,637	10,694
Salaries	134,517	126,955	261,472
Insurance	13,980	33,244	47,224
Health/life insurance expense	21,612	21,612	43,224
Audit	9,633	9,633	19,266
Supplies	6,688	9,208	15,896
Miscellaneous	3,060	1,777	4,837
Uniforms	1,061	1,061	2,122
Professional memberships	-	409	409
Meeting expense	2,344	1,260	3,604
Payroll taxes	10,341	9,765	20,106
Pension expense	8,568	8,568	17,136
Postage	1,129	1,500	2,629
Testing	708	23,745	24,453
Truck expense	7,501	6,436	13,937
Connections - water meters	7,428	-	7,428
Code enforcement violation fine	-	5,000	5,000
Contingency fund	92,029	-	92,029
Equipment expense	394	3,008	3,402
Total Operating Expenses	<u>578,613</u>	<u>1,255,266</u>	<u>1,833,879</u>
Operating Income (Loss)	<u>162,412</u>	<u>(216,566)</u>	<u>(54,154)</u>
<b>OTHER REVENUES AND (EXPENSES)</b>			
Interest expense	(35,826)	(263,809)	(299,635)
(Loss) on disposal of assets	(14,490)	-	(14,490)
Interest income	1,506	907	2,413
Total Other Revenues and (Expenses)	<u>(48,810)</u>	<u>(262,902)</u>	<u>(311,712)</u>
Change in Net Position	113,602	(479,468)	(365,866)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>3,996,745</u>	<u>1,003,089</u>	<u>4,999,834</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,110,347</u>	<u>\$ 523,621</u>	<u>\$ 4,633,968</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Cash Flows – Proprietary Funds**  
**Year Ended June 30, 2015**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 702,910	\$ 799,891	\$ 1,502,801
Cash payments to suppliers for goods and services	(281,796)	(502,165)	(783,961)
Cash payments to employees for services	(132,982)	(125,420)	(258,402)
Net Cash Provided by Operating Activities	288,132	172,306	460,438
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
(Increase) in due from other funds	(8,142)	(28,440)	(36,582)
Increase in due to other funds	7,845	4,547	12,392
(Decrease) in due to other government agency	-	(24,606)	(24,606)
Proceeds on notes payable	-	263,846	263,846
Net Cash Provided by (Used In) Noncapital Financing Activities	(297)	215,347	215,050
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(229,293)	(3,668)	(232,961)
Interest paid on bonds and notes payable	(36,196)	(264,141)	(300,337)
Principal payments on notes and bonds payable	(78,965)	(83,818)	(162,783)
Net Cash (Used In) Capital and Related Financing Activities	(344,454)	(351,627)	(696,081)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on cash and investments	1,506	907	2,413
Purchases of certificates of deposit	(1,504)	(715)	(2,219)
Redemption of certificates of deposit	2,700	700	3,400
Net Cash Provided By Investing Activities	2,702	892	3,594
Net Increase (Decrease) in Cash and Cash Equivalents	(53,917)	36,918	(16,999)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	249,408	99,356	348,764
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 195,491	\$ 136,274	\$ 331,765

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Cash Flows – Proprietary Funds**  
**Year Ended June 30, 2015**

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(Continued)

**RECONCILIATION OF (LOSS) FROM OPERATIONS**

**TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 162,412	\$ (216,566)	\$ (54,154)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	137,171	643,683	780,854
(Increase) in receivables	(38,115)	(29,809)	(67,924)
Increase (decrease) in accounts payable	22,586	(20,083)	2,503
Decrease in unearned revenue - tap fees	-	(209,000)	(209,000)
Increase in accrued expenses	4,078	4,081	8,159
	<u>4,078</u>	<u>4,081</u>	<u>8,159</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 288,132</u>	<u>\$ 172,306</u>	<u>\$ 460,438</u>

**RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS  
PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF  
NET POSITION**

Cash	\$ 52,409	\$ (40,474)	\$ 11,935
Investments - repurchase agreements	143,082	176,748	319,830
	<u>\$ 195,491</u>	<u>\$ 136,274</u>	<u>\$ 331,765</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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***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, 2015 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 government-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)**

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***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 required 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)**

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- ***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, 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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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. These fees are recorded as deferred revenue until utilized by the developers (See Note 18). 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, 2015.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

	<b>Years</b>
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.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***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 related to amounts due from developers has been recorded (See Note 19).

***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

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***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, 2015 consists of the following:

	<b>Government Wide Activities</b>		<b>Water Fund</b>	<b>Sewer Fund</b>
	<b>Governmental Activities</b>	<b>Business Type Activities</b>		
Capital assets	\$ 6,196,866	\$ 21,696,909	\$ 7,346,327	\$ 14,350,582
Accumulated depreciation	(2,757,902)	(8,266,964)	(3,121,850)	(5,145,113)
Debt	(1,333,421)	(8,718,173)	(826,900)	(7,891,273)
Net investment in capital assets	<u>\$ 2,105,543</u>	<u>\$ 4,711,772</u>	<u>\$ 3,397,577</u>	<u>\$ 1,314,196</u>

***Restricted***

Consists of components of net position with constraints placed on use by external groups such as creditors, grantors, contributors, regulations of other governments, law through constitutional provisions or enabling legislation. As of June 30, 2015 the Town had restrictions of net assets of \$301,967 (See Note 9).

***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, 2015**

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**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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***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**

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At June 30, 2015, the carrying amount of the Town's deposits, including interest receivable, was \$1,946,728. The related bank balances totaled \$1,958,217, including accrued interest.

Following is a schedule of the Town's deposits by financial institution at June 30, 2015:

Susquehanna Bank	\$ 1,860,113
The Columbia Bank	9,717
Wells Fargo Advisors	<u>88,387</u>
	<u>\$ 1,958,217</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 3 CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)**

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***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, 2015, \$1,610,113 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>\$ 1,610,113</u>
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**NOTE 4 INVESTMENTS**

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As of June 30, 2015, the Town had the following investments and maturities:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Repurchase agreements - Susquehanna Bank	Daily	<u>\$ 2,013,727</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 Town 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 Town 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 Town and other customers. The securities are held in the Bank's name. The Town 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, 2015**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land and land improvements	\$ 1,070,146	\$ -	\$ -	\$ 1,070,146
<b>Capital Assets, Being Depreciated</b>				
Buildings	1,374,344	6,665	-	1,381,009
Machinery and equipment	740,883	130,920	(27,395)	844,408
Storm drainage	522,548	-	-	522,548
Road improvements	667,118	-	-	667,118
Park and playground equipment	1,682,422	29,218	-	1,711,640
Subtotal	4,987,315	166,803	(27,395)	5,126,723
<b>Accumulated Depreciation</b>				
Buildings	(938,400)	(27,630)	-	(966,030)
Machinery and equipment	(606,187)	(32,322)	27,395	(611,114)
Storm drainage	(405,096)	(3,660)	-	(408,756)
Road improvements	(178,871)	(35,170)	-	(214,041)
Park and playground equipment	(461,843)	(96,121)	-	(557,964)
Subtotal	(2,590,397)	(194,903)	27,395	(2,757,905)
<b>NET CAPITAL ASSETS</b>	<b>\$ 3,467,064</b>	<b>\$ (28,100)</b>	<b>\$ -</b>	<b>\$ 3,438,964</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land and land improvements	\$ 103,845	\$ -	\$ -	\$ 103,845
<b>Capital Assets, Being Depreciated</b>				
Land improvements	5,000	-	-	5,000
Buildings	140,532	-	-	140,532
Machinery and equipment	4,925,467	18,405	(31,008)	4,912,864
Utility plants	16,339,961	214,556	(19,849)	16,534,668
Subtotal	21,410,960	232,961	(50,857)	21,593,064
<b>Accumulated Depreciation</b>				
Land improvements	(5,000)	-	-	(5,000)
Buildings	(140,532)	-	-	(140,532)
Machinery and equipment	(2,549,960)	(91,040)	31,008	(2,609,992)
Utility plants	(4,826,984)	(689,814)	5,359	(5,511,439)
Subtotal	(7,522,476)	(780,854)	36,367	(8,266,963)
<b>NET CAPITAL ASSETS</b>	<b>\$ 13,992,329</b>	<b>\$ (547,893)</b>	<b>\$ (14,490)</b>	<b>\$ 13,429,946</b>
<b>DEPRECIATION WAS CHARGED TO FUNCTIONS AS FOLLOWS</b>				
Governmental activities				
General government	\$ 30,610			
Public safety	19,237			
Highways & streets	35,170			
Recreation and parks	109,886			
Total Governmental-Type Activities Depreciation Expense	194,903			
Business-Type Activities				
Water	137,170			
Sewer	643,684			
Total Business-Type Activities Depreciation Expense	780,854			
<b>TOTAL DEPRECIATION EXPENSE</b>	<b>\$ 975,757</b>			

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 6 OTHER ACCRUED EXPENSES**

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Other accrued expenses include accrued compensated absences in the amounts of \$14,606 and \$7,770 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 7 LONG-TERM DEBT - PROPRIETARY FUND TYPES**

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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, 2015. Since it is unlikely that any payments will occur within one year, no current maturities are booked for this loan.

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

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
<b>Sewer Fund</b>					
Note payable - MDE	\$ 70,369	\$ -	\$ (6,726)	\$ 63,643	\$ 6,793

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, 2015**

**NOTE 7 LONG-TERM DEBT - PROPRIETARY FUND TYPES (CONTINUED)**

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
<b>Sewer Fund</b>					
Bond payable - USDA	\$ 5,697,668	\$ -	\$ (70,285)	\$ 5,627,383	\$ 72,972

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. In December 2014, the Town refinanced this bond. Under the modified agreement, the Town will pay a fixed principal payment of \$1,000 annually for three years plus interest in accordance with the original agreement on a semi-annual basis. After the three year deferment period, the refinanced bond requires variable annual payments until the bond is paid in full in 2029.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
<b>Sewer Fund</b>					
Bond payable - MDE	\$ 1,536,673	\$ -	\$ (6,807)	\$ 1,529,866	\$ 1,000

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, 2015. These loans were made in addition to loans made in the prior year. As of June 30, 2015, the General Fund had loaned a total of \$610,804 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
<b>Sewer Fund</b>					
Note payable - General Fund	\$ 346,958	\$ 263,846	\$ -	\$ 610,804	\$ -

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
<b>Water Fund</b>					
General obligation bonds payable	\$ 144,758	\$ -	\$ (16,567)	\$ 128,191	\$ 17,653

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 7 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
<b>Water Fund</b>					
Note payable - MDE	\$ 111,135	\$ -	\$ (5,709)	\$ 105,426	\$ 5,989

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
<b>Water Fund</b>					
Note payable - MDE	\$ 55,694	\$ -	\$ (3,688)	\$ 52,006	\$ 3,770

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
<b>Water Fund</b>					
Note payable - MDE	\$ 197,944	\$ -	\$ (14,001)	\$ 183,943	\$ 14,141

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 7 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
<b>Water Fund</b>					
Note payable - Susquehanna Bank	\$ 236,334	\$ -	\$ (23,000)	\$ 213,334	\$ 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
<b>Water Fund</b>					
Note payable - Susquehanna Bank	\$ 160,000	\$ -	\$ (16,000)	\$ 144,000	\$ 16,000

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

Year Ending June 30,	Principal	Interest
2016	\$ 161,318	\$ 292,437
2017	166,507	284,545
2018	269,215	276,394
2019	275,993	267,950
2020	282,958	259,209
2021-2025	1,369,215	1,219,008
2026-2030	1,405,894	987,756
2031-2035	765,953	824,070
2036-2040	952,112	637,908
2041-2045	1,183,515	406,505
2046-2050	1,215,112	121,943
	<u>\$ 8,047,792</u>	<u>\$ 5,577,725</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 7 LONG-TERM DEBT - PROPRIETARY FUND TYPES (CONTINUED)**

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The two notes payable from the sewer fund to the general fund are displayed in the noncurrent asset section of the Statement of Net Position. Since no set repayment schedule has been established on either loan, the balances have been excluded from the above repayment schedule.

**NOTE 8 LONG-TERM DEBT - GOVERNMENTAL FUND**

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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, 2015 is \$139,500.

On January 26, 2005, the Town entered into a loan agreement with Susquehanna Bank in which \$2,000,000 was available to fund Shafer Park improvements. The loan is collateralized by park real estate. At June 30, 2015, \$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, 2015 is \$1,093,919.

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 note is prepayable without penalty, is unsecured, and contains right of setoff provisions.

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Maturities</b>
Note Payable - MWQFA	\$ 155,000	\$ -	\$ (15,500)	\$ 139,500	\$ 15,500
Loan Payable - Susquehanna	1,233,140	-	(139,219)	1,093,921	143,245
Loan Payable - Susquehanna	-	150,000	(50,000)	100,000	50,000
	<u>\$ 1,388,140</u>	<u>\$ 150,000</u>	<u>\$ (204,719)</u>	<u>\$ 1,333,421</u>	<u>\$ 208,745</u>

Requirements for payments in future years are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 208,745	\$ 34,151
2017	212,884	28,859
2018	167,144	23,539
2019	171,526	19,095
2020	176,035	14,524
2021-2024	397,087	14,799
	<u>\$ 1,333,421</u>	<u>\$ 134,967</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 9 GOVERNMENTAL FUND BALANCES**

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The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2015 is as follows:

	<u>General Fund</u>
<b>FUND BALANCES</b>	
Nonspendable	
Long-term loan receivables	\$ 669,684
Prepaid expenses	18,641
	<u>\$ 688,325</u>
Restricted	
Excise tax	\$ 85,861
Hotel/Motel tax	75,708
WWTP	100,122
Friends of Shafer Park	40,276
	<u>\$ 301,967</u>
Committed	
Shafer Park expansion	\$ 59,105
	<u>\$ 59,105</u>
Unassigned	<u>\$ 2,484,766</u>
<b>TOTAL FUND BALANCE</b>	<u><u>\$ 3,534,163</u></u>

**NOTE 10 DEPOSITS**

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Deposits in the General Fund, which amounted to \$3,200 at June 30, 2015, represent payments by developers for inspections not yet completed or for driveway bonds. The Town collects a deposit from developers prior to the start of construction. As inspection charges are billed to the Town, the payments are made from the money received from the developers. Upon completion of a project, or as driveways are completed, any undisbursed funds are refunded to the developers.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 11 INTERFUND RECEIVABLES AND PAYABLES**

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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	\$ 27,681
	Sewer	29,298
Water	General	(86,758)
	Sewer	(124) *
Sewer	General	(94,762)
	Water	<u>124 *</u>
Total		<u><u>\$ (124,541)</u></u>

\* This represents the due to/from between business type activities. The total between governmental and business type activities is \$(124,541), net. Amounts owed to the general fund by the business type activities are \$56,979 and amounts owed to the business type activities from the general fund are \$181,520.

**NOTE 12 PENSION PLAN**

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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, 2015, the Town has eighteen total full-time and part-time employees with thirteen employees participating in the plan. The employees of the Town made no contributions. The Town's contribution for fiscal year 2015 was \$48,991.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 13 DEFERRED COMPENSATION PLAN**

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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 14 RISK MANAGEMENT**

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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 15 BOONSBORO/KEEDYSVILLE WATER FILTRATION PROJECT**

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

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

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, 2015**

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**NOTE 15      BOONSBORO/KEEDYSVILLE WATER FILTRATION PROJECT (CONTINUED)**

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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 16      CONTINGENCIES**

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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 17      COMMITMENTS**

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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 8). At June 30, 2015, there was \$2,176,501 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 7) 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 18).

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 18 AGREEMENTS WITH DEVELOPERS**

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

During the year ended June 30, 2009, the Town entered into agreements with several developers, under which the Town has agreed to provide an allocated amount of sewer taps which have been guaranteed by the developers and will pay for the first 5 years of debt service related to the construction of the WWTP (See Note 17). 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 19, an allowance for doubtful accounts has been established as of June 30, 2015.

Included in the Statement of Net Position is unearned revenue – tap fees totaling \$1,389,433 for the year ended June 30, 2015. This will be recognized as revenue when the developers begin to utilize the taps. During the year ended June 30, 2015, the Town recognized \$209,000 of tap fee revenue that had previously been unearned.

**NOTE 19 RISKS AND VULNERABILITY**

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As disclosed in Notes 17 and 18, 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, 2015, 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 raised sewer rates 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's General Fund loaned the Sewer Fund an additional \$263,846 to cover the payments (see Note 7).

**MAYOR AND COUNCIL OF BOONSBORO**  
**Notes to Financial Statements**  
**June 30, 2015**

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**NOTE 20 RESTRICTED CASH**

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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, 2015 is \$100,122. 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 19).

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, 2015 is \$40,276.

**NOTE 21 SUBSEQUENT EVENTS**

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The Town has evaluated events and transactions subsequent to June 30, 2015 through October 29, 2015, the date these financial statements were available to be issued. Based on definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2015 through October 29, 2015 that require recognition or disclosure in the financial statements.

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues and Expenditures - Budget and Actual - General Fund**  
**Year Ended June 30, 2015 (Unaudited)**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
<b>Local Property Taxes, Net of Discounts</b>				
Real property	\$ 958,921	\$ 958,921	\$ 955,607	\$ (3,314)
Personal property - unincorporated	1,500	1,500	1,776	276
Personal property - incorporated	60,000	60,000	56,434	(3,566)
Penalties and interest	4,500	4,500	6,125	1,625
Discounts allowed	(13,500)	(13,500)	(1,900)	11,600
	<u>1,011,421</u>	<u>1,011,421</u>	<u>1,018,042</u>	<u>6,621</u>
<b>Licenses and Permits</b>				
Trader's	2,000	2,000	3,972	1,972
Alcoholic beverages	1,000	1,000	536	(464)
Planning and zoning	18,550	18,550	40,199	21,649
	<u>21,550</u>	<u>21,550</u>	<u>44,707</u>	<u>23,157</u>
<b>Grants and Shared Taxes</b>				
State of Maryland				
Income tax	250,000	250,000	344,565	94,565
Admissions	6,000	6,000	12,407	6,407
Highway tax	103,337	103,337	103,680	343
Grant for police protection	28,579	28,579	25,891	(2,688)
Other grants and shared taxes	104,500	104,500	56,152	(48,348)
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	27,500	27,500	30,069	2,569
Parking fines	300	300	120	(180)
	<u>525,166</u>	<u>525,166</u>	<u>577,052</u>	<u>51,886</u>
<b>Charges for Sanitation Services</b>	<u>72,240</u>	<u>72,240</u>	<u>73,424</u>	<u>1,184</u>
<b>Other Revenue</b>				
Interest	15,000	15,000	21,872	6,872
Other income	8,000	8,000	13,473	5,473
Cable TV franchise fees	21,000	21,000	21,726	726
Prior year reserves	140,500	140,500	-	(140,500)
	<u>184,500</u>	<u>184,500</u>	<u>57,071</u>	<u>(127,429)</u>
<b>Total Revenues</b>	<u>1,814,877</u>	<u>1,814,877</u>	<u>1,770,296</u>	<u>(44,581)</u>

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues and Expenditures - Budget and Actual - General Fund**  
**Year Ended June 30, 2015 (Unaudited)**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES</b>				
<b>General Government</b>				
Mayor and Council				
Salaries	\$ 84,845	\$ 84,845	\$ 120,723	\$ (35,878)
Operating expenses	24,750	24,750	34,244	(9,494)
Contributions and donations	1,000	1,000	750	250
Treasurer - salary	1,000	1,000	1,000	-
Legal, audit and retirement administration	17,750	17,750	22,330	(4,580)
Planning and zoning	55,670	55,670	12,970	42,700
Town building operating expenses	54,000	54,000	69,901	(15,901)
Economic Development Commission	38,050	38,050	16,120	21,930
Environmental Commission	10,000	10,000	-	10,000
Total General Government	287,065	287,065	278,038	9,027
<b>Public Safety</b>				
Police department				
Chief salary	54,902	54,902	59,366	(4,464)
Officer salaries	178,598	178,598	190,559	(11,961)
K-9	1,000	1,000	1,914	(914)
Equipment	16,700	16,700	21,253	(4,553)
Uniforms	3,000	3,000	6,147	(3,147)
Supplies	2,000	2,000	514	1,486
Telephone	1,500	1,500	2,636	(1,136)
Cell phones	3,000	3,000	3,675	(675)
Training	2,000	2,000	-	2,000
Building maintenance	8,000	8,000	12,360	(4,360)
Vehicle maintenance	6,000	6,000	9,330	(3,330)
Vehicle gas	18,000	18,000	15,881	2,119
Other police and public safety expenses	-	-	29,274	(29,274)
Police and public safety committee meetings	700	700	510	190
Night Out expense	1,250	1,250	752	498
Volunteer company contributions				
Fire department	20,000	20,000	20,000	-
Fire hydrants	7,000	7,000	11,204	(4,204)
Ambulance service	20,000	20,000	20,000	-
Total Public Safety	343,650	343,650	405,375	(61,725)
<b>Highways and Streets</b>				
Salaries	128,100	128,100	142,524	(14,424)
Street lighting	57,000	57,000	63,210	(6,210)
Maintenance and operating expenses	67,000	67,000	62,875	4,125
Snow removal	10,000	10,000	46,882	(36,882)
Total Highways and Streets	262,100	262,100	315,491	(53,391)
<b>Sanitation</b>	172,983	172,983	168,075	4,908

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues and Expenditures - Budget and Actual - General Fund**  
**Year Ended June 30, 2015 (Unaudited)**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Recreation and Parks</b>				
Salaries	\$ 770	\$ 770	\$ 740	\$ 30
Park grounds maintenance	13,000	13,000	14,445	(1,445)
Park facilities maintenance	9,000	9,000	8,687	313
Operating expenses	17,250	17,250	22,570	(5,320)
Total Recreation and Parks	40,020	40,020	46,442	(6,422)
<b>Non-Departmental Expenditures</b>				
Insurance	13,400	13,400	16,283	(2,883)
Health insurance	100,000	100,000	106,575	(6,575)
Retirement	31,000	31,000	31,855	(855)
Workers compensation	13,500	13,500	16,822	(3,322)
Payroll taxes	40,000	40,000	39,709	291
Contingency fund	17,822	17,822	48,289	(30,467)
Miscellaneous expense	1,500	1,500	1,927	(427)
Total Non-Departmental Expenditures	217,222	217,222	261,460	(44,238)
<b>Capital Outlay</b>				
Equipment	45,000	45,000	-	45,000
Police department capital expense	4,500	4,500	81,851	(77,351)
Long-term capital improvements	231,837	231,837	84,952	146,885
Total Capital Outlay	281,337	281,337	166,803	114,534
<b>Debt Retirement</b>				
Interest expense	-	-	29,597	(29,597)
Park expansion principal	165,000	165,000	139,221	25,779
CIP loan principal	30,000	30,000	50,000	(20,000)
Mortgage wellhead protection property	15,500	15,500	15,500	-
Total Debt Retirement	210,500	210,500	234,318	(23,818)
Total Expenditures	1,814,877	1,814,877	1,876,002	(61,125)
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	-	-	(105,706)	105,706
<b>OTHER FINANCING SOURCES</b>				
Loan financing for CIP projects	-	-	150,000	(150,000)
Excess of Revenues and Other Financing Sources over Expenditures	\$ -	\$ -	44,294	(44,294)
<b>FUND BALANCE - BEGINNING OF YEAR</b>			3,489,869	
<b>FUND BALANCE - END OF YEAR</b>			\$ 3,534,163	

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues and Expenditures – Budget and Actual – Water Utility Fund**  
**(Budgetary Basis)**  
**Year Ended June 30, 2015 (Unaudited)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive (Negative)</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 465,810	\$ 465,810	\$ 510,717	\$ 44,907
Charges for debt services	18,475	18,475	22,939	4,464
Charges for administration	45,196	45,196	52,619	7,423
Connection charges and other income	141,300	141,300	154,750	13,450
Total Operating Revenues	670,781	670,781	741,025	70,244
<b>OPERATING EXPENSES</b>				
Maintenance and repairs	205,000	205,000	37,610	167,390
Chemicals	12,000	12,000	14,286	(2,286)
Electricity	50,000	50,000	60,502	(10,502)
Heating	1,500	1,500	1,489	11
Telephone	4,500	4,500	6,057	(1,557)
Advertising	500	500	505	(5)
Salaries	140,000	140,000	134,517	5,483
Insurance	14,000	14,000	13,980	20
Health/life insurance expense	34,000	34,000	21,612	12,388
Audit	6,500	6,500	9,633	(3,133)
Legal fees	500	500	-	500
Supplies	8,500	8,500	6,688	1,812
Miscellaneous	100	100	3,060	(2,960)
Uniforms	1,000	1,000	1,061	(61)
Professional memberships	1,000	1,000	-	1,000
Meeting expense	1,200	1,200	2,344	(1,144)
Payroll taxes	8,000	8,000	10,341	(2,341)
Pension expense	8,000	8,000	8,568	(568)
Testing	1,000	1,000	708	292
Truck expense	8,000	8,000	7,501	499
Equipment expense	2,500	2,500	394	2,106
Connections - water meters	-	-	7,428	(7,428)
Contingency fund	10,756	10,756	92,029	(81,273)
Postage	1,500	1,500	1,129	371
Capital outlay	91,500	91,500	229,293	(137,793)
Total Operating Expenses	611,556	611,556	670,735	(59,179)
Operating Income	59,225	59,225	70,290	11,065
<b>OTHER REVENUES AND (EXPENSES)</b>				
Interest expense	(34,610)	(34,610)	(35,826)	(1,216)
Debt service (principal)	(25,015)	(25,015)	(78,965)	(53,950)
Interest income	400	400	1,506	1,106
Total other revenues and (expenses)	(59,225)	(59,225)	(113,285)	(54,060)
<b>NET (LOSS)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,995)</u>	<u>\$ (42,995)</u>

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

**MAYOR AND COUNCIL OF BOONSBORO**  
**Statement of Revenues and Expenditures – Budget and Actual – Sewer Utility Fund**  
**(Budgetary Basis)**  
**Year Ended June 30, 2015 (Unaudited)**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>OPERATING REVENUES</b>				
Charges for services	\$ 761,148	\$ 761,148	\$ 799,700	\$ 38,552
Bay Restoration Fund collections	72,000	72,000	-	(72,000)
Grants	-	-	30,000	30,000
Connection charges and other income	-	-	209,000	209,000
<b>Total Operating Revenues</b>	<b>833,148</b>	<b>833,148</b>	<b>1,038,700</b>	<b>205,552</b>
<b>OPERATING EXPENSES</b>				
Maintenance and repairs	77,000	77,000	48,095	28,905
Chemicals	50,000	50,000	37,148	12,852
Biosolids removal	65,000	65,000	167,008	(102,008)
Electricity	60,000	60,000	89,355	(29,355)
Heating	1,500	1,500	1,489	11
Telephone	3,700	3,700	4,637	(937)
Salaries	139,500	139,500	126,955	12,545
Insurance	40,000	40,000	33,244	6,756
Health/life insurance expense	34,000	34,000	21,612	12,388
Advertising	500	500	670	(170)
Audit	6,500	6,500	9,633	(3,133)
Supplies	8,500	8,500	9,208	(708)
Contingency fund	12,877	12,877	1,777	11,100
Uniforms	1,000	1,000	1,061	(61)
Professional memberships	500	500	409	91
Meeting expense	1,200	1,200	1,260	(60)
Payroll taxes	8,000	8,000	9,765	(1,765)
Pension expense	8,000	8,000	8,568	(568)
Testing	20,000	20,000	23,745	(3,745)
Truck expense	3,000	3,000	6,436	(3,436)
Equipment expense	2,500	2,500	3,008	(508)
Code enforcement violation fine	-	-	5,000	(5,000)
Postage	1,200	1,200	1,500	(300)
Capital outlay	100,000	100,000	3,668	96,332
<b>Total Operating Expenses</b>	<b>644,477</b>	<b>644,477</b>	<b>615,251</b>	<b>29,226</b>
<b>Operating Income</b>	<b>188,671</b>	<b>188,671</b>	<b>423,449</b>	<b>234,778</b>
<b>OTHER REVENUES AND (EXPENSES)</b>				
Interest expense	(110,390)	(110,390)	(263,809)	(153,419)
Debt service (principal)	(7,781)	(7,781)	(83,818)	(76,037)
Bay Restoration Fund payments	(72,000)	(72,000)	-	72,000
Other income	1,200	1,200	-	(1,200)
Interest income	300	300	907	607
<b>Total other revenues and (expenses)</b>	<b>(188,671)</b>	<b>(188,671)</b>	<b>(346,720)</b>	<b>(158,049)</b>
<b>NET INCOME</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 76,729</b>	<b>\$ 76,729</b>

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



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

Mayor and Council of Boonsboro  
Boonsboro, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, the business-type activities, and each major fund of the Mayor and Council of Boonsboro (the Town) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 29, 2015.

**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 2015-1 through 2015-6 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.

### ***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  
October 29, 2015

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**FINDING 2015-1**

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**Criteria:** The Town must report on the accrual basis of accounting for generally accepted accounting principles (GAAP) purposes. This requires the Town to accurately record receivables, payables, and other accruals before the physical cash receipts or disbursements take place.

**Condition/  
Context:** During the course of our audit, we noted that for most of the year, revenues were recognized on the cash basis of accounting and not the accrual basis. As a result, several year-end accruals were not made and therefore numerous audit adjustments were necessary for the balances to be properly reflected in accordance with GAAP in the financial statements.

**Cause:** The Town booked revenues when cash was received rather than when the revenue was actually earned.

**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 and loan agreements could be misstated or incomplete.

**Recommendation:** We recommend that accounting personnel record transactions on the accrual basis of accounting instead of the cash basis of accounting. We further recommend that accounting personnel keep the books open past year-end to allow for the proper posting of year-end receivables, accounts payable, and other year-end accruals to minimize the amount of audit adjustments that need to be made.

**Management  
Response:** The Town accepts the recommendation and will record transactions on an accrual basis.

**FINDING 2015-2**

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**Criteria:** During the audit several bank accounts were found to not be properly and completely reconciled. Additionally, it was noted that deposits are not being made in a timely manner. This is a repeat finding.

**Condition/  
Context:** Monthly bank account reconciliations are the primary internal control procedure related to the Town's cash accounts. During FY 2015, some bank account reconciliations were prepared; however, several accounts were not completely reconciled and two accounts were not reconciled at all for the year. We noted one account that had a material unreconciled difference. Upon further investigation we noted that the difference was simply due to a keying error by the town clerk; however, the unreconciled difference was not caught by management during review of the bank reconciliation. We also noted that some checks on two bank account reconciliations had been outstanding for

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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. It was further determined that some of the stale checks were actually checks written from one Town fund to another fund, and therefore they weren’t deposited in a timely manner. Additionally, we noted on two bank account reconciliations that a few 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. Further investigation determined that the deposits were likely missed due to the Town holding checks for an extended period of time rather than depositing them immediately. Lastly, we noted that for those reconciliations that are being performed, there is a significant time lapse between month-end and the date the reconciliations are performed (in some cases up to three months).

**Cause:** The Town has not properly reconciled its bank accounts. The Town does not make deposits timely.

**Effect:** The financial statements could have been misstated or incomplete. Checks could have been lost or stolen. 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 one week after receiving bank statements and that reconciling items are resolved immediately. This will ensure timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported. We further recommend that deposits be made timely (preferably daily), unreconciled differences and stale checks be investigated and cleared immediately, and transactions made between general and proprietary funds be properly recorded on both bank reconciliations. 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:** The Town will implement the above recommendation.

**FINDING 2015-3**

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**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. This is a repeat finding.

**Condition/Context:** We noted that the Town’s subsidiary ledgers were not in agreement with the general ledger because several accounts had not been properly reconciled. Our audit procedures revealed that the due to and due from accounts between funds were not in agreement and had not been properly reconciled since our last audit.

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As a result, there was a substantial amount of time spent to reconcile the accounts to determine whether the due to/due from balances were correct in the general ledger. Additionally, the accounts payable subsidiary ledger was not reconciled to the general ledger. There were several items that were properly included on the general ledger but were missing from the client-prepared schedule of outstanding bills. Further investigation of accounts payable showed that the improper reconciliation of accounts payable also contributed to some of the errors in the due to and due from accounts. Lastly, because revenues were recorded on the cash basis, accounts receivable also were not properly reconciled. 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, and due to/due from accounts to supporting documentation on a monthly basis.

**Cause:** The Town has not reconciled the accounts receivable, accounts payable, and due to/due from 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 and loan agreements could be misstated or incomplete.

**Recommendation:** We recommend that a reconciliation of the detail to the accounts receivable, accounts payable, and due to/due from general ledger accounts be made at the end of each month and that any reconciling items be investigated and cleared promptly. Once the reconciliations have been prepared, we recommend that the Town Manager review the reconciliations and document the review.

**Management  
Response:**

The Town will implement the above recommendation.

**FINDING 2015-4**

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**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 one journal entry was missing documentation to support the transaction. This is a repeat finding.

**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 one journal entry 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.

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**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:** The Town will implement a policy to review adjusting entries.

**FINDING 2015-5**

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**Criteria:** During our documentation of internal control processes and testing of investments, we noted that there is no documentation of approval of investment transactions and no independent review of monthly investment reconciliations. This is a repeat finding.

**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. While we did note, in reading the mayor and council meeting minutes, that discussion about specific investments occurred, no formal motions were made to authorize investment transactions. Additionally, there is no independent review of monthly investment reconciliations that are prepared by the town clerk.

**Cause:** The Town does not have documented approval of investment transactions. There is also no independent review of investment reconciliations.

**Effect:** Investments could be purchased or redeemed without proper approval. Investments could be incorrectly stated.

**Recommendation:** We recommend that approval of investment transactions be documented in the Mayor and Council minutes (via actual motions) to verify that the transactions were properly authorized. We further recommend that the Town Manager review monthly investment reconciliations and document the review.

**Management Response:** The Town will implement a policy for investments.

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**FINDING 2015-6**

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<b>Criteria:</b>	Transactions made through third-party accounts should be properly reflected in the Town's accounting records.
<b>Condition/ Context:</b>	During the current year, the Town began utilizing a third-party online payment system (PayPal) to allow residents to make utility payments. We noted during audit that funds collected via PayPal were not deposited into the Town's bank account in a timely manner and monthly reconciliations were not performed.
<b>Cause:</b>	The Town has not properly recorded cash collected through PayPal.
<b>Effect:</b>	Cash could be understated and receivables could be overstated. Additionally, funds sitting in a PayPal account could be subject to misappropriation if not transferred and recorded timely.
<b>Recommendation:</b>	We recommend that transfers from PayPal to the Town's bank account are made timely (i.e. on a weekly basis), and that reconciliations are performed monthly to ensure appropriate and timely recording of payments. This reconciliation should also be reviewed by management. We further recommend that proper procedures are in place to ensure proper recording of cash collections between the three funds, as well as to ensure that fee revenue is segregated from utility usage revenue.
<b>Management Response:</b>	The Town will implement the above recommendation.