

Audited
Financial
Statements

June 30,
2016

Mayor and Council of Boonsboro



CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4-10
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Activities	12
FUND FINANCIAL STATEMENTS	
Balance Sheet – Governmental Fund	13
Reconciliation of Fund Balance to Net Position of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19 - 20
Notes to Financial Statements	21 - 41
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Statement of Revenues and Expenditures – Budget and Actual – General Fund	42 - 44
OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)	
Statement of Revenues and Expenses – Budget and Actual – Water Utility Fund (Budgetary Basis)	45
Statement of Revenues and Expenses – Budget and Actual – Sewer Utility Fund (Budgetary Basis)	46
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	47 - 48
SCHEDULE OF FINDINGS AND RESPONSES	49 - 54



INDEPENDENT AUDITOR'S REPORT

Mayor and Council of Boonsboro
Boonsboro, Maryland

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Mayor and Council of Boonsboro (Town) as of and for the year ended June 30, 2016, 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, 2016, 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016 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 26, 2016

MAYOR AND COUNCIL OF BOONSBORO
Management's Discussion and Analysis
For the Year Ended June 30, 2016 (Unaudited)

The management of the Town of Boonsboro provides the following information as an introduction, overview, and analysis of the Town's financial statements for the year ended June 30, 2016. Readers should also review the basic financial statements on pages 11-41 to further enhance their understanding of the Town's financial performance.

FINANCIAL HIGHLIGHTS – GOVERNMENT- WIDE FINANCIAL STATEMENTS

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$10,154,240. The net position of the governmental activities was \$5,845,880 and the combined net position of business-type activities was \$4,308,360. Of the combined net position of the governmental and business-type activities, \$2,048,224 may be used to meet the Town's ongoing obligations to citizens and creditors.

USING THIS ANNUAL FINANCIAL REPORT

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

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

REPORTING ON THE TOWN OF BOONSBORO AS A WHOLE

Statement of Net Position and Statement of Activities

The government-wide statements answer the question "How did the Town as a whole perform financially during FY 2016". 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, 2016. 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, 2016 (Unaudited)

- **The Statement of Activities.** This statement (page 12) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the Town for the year ended June 30, 2016. 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 21-27 in the Notes to the Financial Statements.

REPORTING ON THE TOWN OF BOONSBORO'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

- **Government Funds.** Governmental funds are used to account for "governmental-type" activities. Unlike the government-wide financial statements, governmental fund statements use a "flow of financial resources" measurement focus. That is to say, the operating statement of a governmental fund attempts to answer the question "Are there more or less resources that can be spent in the near future as a result of events and transactions of the reporting period?" Increases in spendable resources are reported in the operating statement as "revenues" or "other financing sources." Decreases in spendable resources are reported as "expenditures" or "other financing uses." We describe the differences between governmental funds and governmental activities (reported in the Statement of Net Position and the Statement of Activities) in reconciliations presented beside the governmental fund financial statements on pages 14 and 16.

The Town of Boonsboro maintains one governmental fund. The governmental fund financial statements on pages 13 and 15 display the general fund, which is the only governmental fund of the Town. The general fund is also considered to be a major fund.

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

Enterprise Funds

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

MAYOR AND COUNCIL OF BOONSBORO
Management's Discussion and Analysis
For the Year Ended June 30, 2016 (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 17-20.

- **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 21-41 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, 2016 and 2015.

	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	\$ 3,270,909	\$ 3,700,877	\$ 562,544	\$ 812,604	\$ 3,833,453	\$ 4,513,481
Capital assets, net	3,925,283	3,438,964	12,963,816	13,429,946	16,889,099	16,868,910
Total Assets	7,196,192	7,139,841	13,526,360	14,242,550	20,722,552	21,382,391
LIABILITIES						
Other liabilities	225,636	166,714	1,304,042	1,560,790	1,529,678	1,727,504
Long-term liabilities	1,124,676	1,333,421	7,913,958	8,047,792	9,038,634	9,381,213
Total Liabilities	1,350,312	1,500,135	9,218,000	9,608,582	10,568,312	11,108,717
NET POSITION						
Net investment in capital assets	2,800,607	2,105,543	5,049,161	5,381,457	7,849,768	7,487,000
Restricted - Excise tax	50,639	85,861	-	-	50,639	85,861
Restricted - WWTP	100,223	100,122	1,007	1,018	101,230	101,140
Restricted - Hotel/Motel tax	59,250	75,708	-	-	59,250	75,708
Restricted - Friends of Shafer Park	40,409	40,276	-	-	40,409	40,276
Restricted - ACA rebate	4,720	-	-	-	4,720	-
Unrestricted (Deficit)	2,790,032	3,232,196	(741,808)	(748,507)	2,048,224	2,483,689
TOTAL NET POSITION	\$ 5,845,880	\$ 5,639,706	\$ 4,308,360	\$ 4,633,968	\$ 10,154,240	\$ 10,273,674

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, 2016 (Unaudited)

The Town's net position from governmental activities increased 4% from \$5,639,706 to \$5,845,880. Net investment in capital assets increased \$695,064 due to payments of debt, as well as depreciation of the existing assets and new acquisitions and disposals. Unrestricted net position decreased \$442,164. The Town's assets increased 0.8% from \$7,139,841 to \$7,196,192 due to an increase in loans receivable from the sewer fund and an increase in other receivables, offset by decreases in investments. Liabilities have decreased \$149,823 as a result of the general fund repaying principal balances on existing loans, offset by increases in account payable and other accrued expenses.

The Town's net position from business-type activities decreased 7% from \$4,633,968 to \$4,308,360. Net investment in capital assets decreased \$332,296 mainly due to an increase in depreciation expense offset by payments on debt. Unrestricted net position (deficit) increased \$6,699. The Town's assets decreased 5% from \$14,242,550 to \$13,526,360 as a result of the increase in net payable due to the general fund for the wastewater treatment plant debt and depreciation, as well as a decrease in investments. Liabilities have decreased \$390,582 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, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues						
Charges for services	\$ 222,694	\$ 130,212	\$ 2,013,035	\$ 1,779,725	\$ 2,235,729	\$ 1,909,937
Operating grants and contributions	62,100	60,891	150,000	-	212,100	60,891
Capital grants and contributions	-	5,946	-	-	-	5,946
General Revenues						
Income taxes	360,617	344,565	-	-	360,617	344,565
Property taxes	1,015,708	1,018,042	-	-	1,015,708	1,018,042
Other shared and local taxes and grants	202,294	165,530	-	-	202,294	165,530
Investment earnings	21,033	21,872	3,096	2,413	24,129	24,285
Miscellaneous income/(expenses)	30,454	23,238	3,520	-	33,974	23,238
Gain (loss) on disposal of capital assets	12,500	-	-	(14,490)	12,500	(14,490)
Total Revenues	<u>1,927,400</u>	<u>1,770,296</u>	<u>2,169,651</u>	<u>1,767,648</u>	<u>4,097,051</u>	<u>3,537,944</u>
EXPENSES						
General government/non-departmental	630,074	599,705	-	-	630,074	599,705
Public safety	456,090	424,612	-	-	456,090	424,612
Highways and streets	313,435	350,661	-	-	313,435	350,661
Sanitation	166,225	168,075	-	-	166,225	168,075
Recreation and parks	155,403	156,328	-	-	155,403	156,328
Water	-	-	754,880	614,439	754,880	614,439
Sewer	-	-	1,740,379	1,519,075	1,740,379	1,519,075
Total Expenses	<u>1,721,227</u>	<u>1,699,381</u>	<u>2,495,259</u>	<u>2,133,514</u>	<u>4,216,486</u>	<u>3,832,895</u>
CHANGE IN NET POSITION	<u>\$ 206,173</u>	<u>\$ 70,915</u>	<u>\$ (325,608)</u>	<u>\$ (365,866)</u>	<u>\$ (119,435)</u>	<u>\$ (294,951)</u>

MAYOR AND COUNCIL OF BOONSBORO
Management's Discussion and Analysis
For the Year Ended June 30, 2016 (Unaudited)

GOVERNMENTAL ACTIVITIES – CHANGE IN NET POSITION

Governmental activities increased the Town's net position by \$206,173. Key elements of this increase are as follows:

- State shared income taxes exceeded budget by \$60,617. This is the result of an increase in MD taxes generated from income tax returns in the local area.
- Other grants and shared taxes exceeded budget by \$54,056. This is the result of an increase in Program Open Space grant funding and county permit excise taxes.
- Snow removal assistance revenue exceeded budget by \$16,453. This is the result of the Town receiving partial reimbursement for expenses incurred during the 2016 snowstorm.
- Planning and zoning licenses exceeded budget by \$18,923. 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.

BUSINESS-TYPE ACTIVITIES – CHANGE IN NET POSITION

Business-type activities decreased the Town's net position by \$325,608. 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 \$791,535 in FY 2016.
- Interest expense and principal repayment expense for the sewer fund was much higher than budget due to the fact that the sewer budget was missing debt service for the portion of the wastewater treatment plant debt that is being paid by the general fund.
- Capital outlay expenses in the sewer fund were over budget by \$111,379. The Town began a significant sewer lining project during FY16 for which the Town paid \$167,384 as of June 30, 2016.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND FINANCIAL STATEMENTS

The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, fund balance is generally a good indicator of net resources available for spending at the end of the fiscal year, subject to any stated restrictions on its use.

As of the end of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$3,045,273, a decrease of \$488,890 from the prior year. Approximately 59% of this total amount (\$1,827,085) constitutes the unassigned fund balance, which is available for spending at the government's discretion.

MAYOR AND COUNCIL OF BOONSBORO
Management's Discussion and Analysis
For the Year Ended June 30, 2016 (Unaudited)

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.

BUDGETARY HIGHLIGHTS

Tax revenue remains the primary financial resource to meet the monetary operating obligations with real property tax revenues increasing only at the proposed Constant Yield Tax Rate. 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 2016.

CAPITAL ASSET AND DEBT ADMINISTRATION – GOVERNMENT-WIDE STATEMENT

Capital Asset Activity

The Town's investment in capital assets for its governmental and business type activities as of June 30, 2016 amounted to \$16,889,099 (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 \$694,955 for the governmental funds and \$325,405 for the business-type activities. The total disposals to the Town's investment in capital assets for the current fiscal year were \$134,915 for the governmental funds and \$60,026 for the business-type activities.

Additional information on the Town's capital assets can be found in the notes, on pages 30 and 31 of this report.

Debt Administration

The following table presents the Town of Boonsboro's outstanding debt owed to third parties, at June 30, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Total Outstanding Debt	
	2016	2015	2016	2015	2016	2015
Loans outstanding	\$ 1,124,676	\$ 1,333,421	\$ 7,803,420	\$ 7,919,601	\$ 8,928,096	\$ 9,253,022
General obligation bonds	-	-	110,538	128,191	110,538	128,191
Total Debt	<u>\$ 1,124,676</u>	<u>\$ 1,333,421</u>	<u>\$ 7,913,958</u>	<u>\$ 8,047,792</u>	<u>\$ 9,038,634</u>	<u>\$ 9,381,213</u>

Additional information on the long-term debt of the Town can be found in the notes on pages 31-36 of this report.

MAYOR AND COUNCIL OF BOONSBORO
Management's Discussion and Analysis
For the Year Ended June 30, 2016 (Unaudited)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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.

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

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, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current			
Cash	\$ 87,334	\$ 277,281	\$ 364,615
Cash - restricted - WWTP	100,223	-	100,223
Cash - restricted - excise taxes	50,639	-	50,639
Certificates of deposit, including accrued interest	929,795	486,667	1,416,462
Certificate of deposit - restricted - Friends of Shafer Park	40,409	-	40,409
Investments - repurchase agreements	1,123,109	38,725	1,161,834
Receivables			
Sanitation service	15,173	-	15,173
Taxes, net of allowance for uncollectible taxes of \$938	21	-	21
Sewer service	-	239,824	239,824
Water service	-	163,446	163,446
Grants	-	86,253	86,253
Due from other governmental agencies	88,280	-	88,280
Due from third-party payment processor	86,198	-	86,198
Other, net of allowance for doubtful accounts of \$594,723	-	-	-
Prepaid expenses	20,076	-	20,076
Total Current Assets	<u>2,541,257</u>	<u>1,292,196</u>	<u>3,833,453</u>
Noncurrent			
Loans receivable/payable - other funds	908,187	(908,187)	-
Due to/from other funds	(178,535)	178,535	-
Capital assets, net of accumulated depreciation	3,925,283	12,963,816	16,889,099
Total Noncurrent Assets	<u>4,654,935</u>	<u>12,234,164</u>	<u>16,889,099</u>
Total Assets	<u>7,196,192</u>	<u>13,526,360</u>	<u>20,722,552</u>
LIABILITIES			
Current			
Outstanding checks in excess of bank balance	-	21,827	21,827
Current maturities of long-term obligations	212,884	188,341	401,225
Matured bonds payable	-	697	697
Accounts payable	134,259	56,350	190,609
Due to other government agency	-	39,376	39,376
Unearned revenue - tap fees	-	1,103,433	1,103,433
Accrued interest	-	34,431	34,431
Other accrued expenses	88,177	47,628	135,805
Deposits	3,200	300	3,500
Total Current Liabilities	<u>438,520</u>	<u>1,492,383</u>	<u>1,930,903</u>
Noncurrent			
Note payable - MDE, net	-	93,155	93,155
Note payable - MWQFA, net	108,500	-	108,500
Note payable - BB&T - Park improvements	803,292	-	803,292
Note payable - MDE - Park View sewer rehabilitation, net	-	49,988	49,988
Note payable - MDE - Alt. 40 Extension	-	44,384	44,384
Note payable - MDE - Alt. 40 Extension #2	-	155,519	155,519
Bond payable - WWTP upgrade - USDA	-	5,478,215	5,478,215
Bond payable - WWTP upgrade - MDE	-	1,527,866	1,527,866
Note payable - BB&T - SHA Main St. Waterline	-	173,001	173,001
Note payable - BB&T - Maple Ave. Waterline	-	111,963	111,963
General obligation bonds payable, net	-	91,526	91,526
Total Noncurrent Liabilities	<u>911,792</u>	<u>7,725,617</u>	<u>8,637,409</u>
Total Liabilities	<u>1,350,312</u>	<u>9,218,000</u>	<u>10,568,312</u>
NET POSITION			
Net investment in capital assets	2,800,607	5,049,161	7,849,768
Restricted - Excise tax	50,639	-	50,639
Restricted - Hotel/Motel tax	59,250	-	59,250
Restricted - WWTP	100,223	1,007	101,230
Restricted - Friends of Shafer Park	40,409	-	40,409
Restricted - ACA rebate	4,720	-	4,720
Unrestricted (Deficit)	2,790,032	(741,808)	2,048,224
TOTAL NET POSITION	<u>\$ 5,845,880</u>	<u>\$ 4,308,360</u>	<u>\$ 10,154,240</u>

MAYOR AND COUNCIL OF BOONSBORO
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General government	\$ 368,258	\$ 49,494	\$ 16,734	\$ -	\$ (302,030)	\$ -	\$ (302,030)
Public safety	456,090	135	28,913	-	(427,042)	-	(427,042)
Sanitation	166,225	76,456	-	-	(89,769)	-	(89,769)
Highways and streets	313,435	-	16,453	-	(296,982)	-	(296,982)
Recreation and parks	155,403	11,265	85,344	-	(58,794)	-	(58,794)
Non-departmental	261,816	-	-	-	(261,816)	-	(261,816)
Total Governmental Activities	<u>1,721,227</u>	<u>137,350</u>	<u>147,444</u>	<u>-</u>	<u>(1,436,433)</u>	<u>-</u>	<u>(1,436,433)</u>
Business-Type Activities							
Water	754,880	840,145	-	-	-	85,265	85,265
Sewer	1,740,379	1,172,890	150,000	-	-	(417,489)	(417,489)
Total Business-Type Activities	<u>2,495,259</u>	<u>2,013,035</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>(332,224)</u>	<u>(332,224)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 4,216,486</u>	<u>\$ 2,150,385</u>	<u>\$ 297,444</u>	<u>\$ -</u>	<u>(1,436,433)</u>	<u>(332,224)</u>	<u>(1,768,657)</u>
GENERAL REVENUES							
Taxes							
Income taxes							
					360,617	-	360,617
Property taxes, levied for general purposes							
					1,015,708	-	1,015,708
Other shared and local taxes and grants							
					202,294	-	202,294
Miscellaneous revenues							
					30,455	3,520	33,975
Interest and investment earnings							
					21,033	3,096	24,129
Gain on disposal of capital assets							
					12,500	-	12,500
Total General Revenues					<u>1,642,607</u>	<u>6,616</u>	<u>1,649,223</u>
Change in net position					206,174	(325,608)	(119,434)
NET POSITION - BEGINNING OF YEAR					<u>5,639,706</u>	<u>4,633,968</u>	<u>10,273,674</u>
NET POSITION - END OF YEAR					<u>\$ 5,845,880</u>	<u>\$ 4,308,360</u>	<u>\$ 10,154,240</u>

MAYOR AND COUNCIL OF BOONSBORO
Balance Sheet – Governmental Fund
June 30, 2016

	General Fund
ASSETS	
Cash	\$ 87,334
Cash - restricted - WWTP	100,223
Cash - restricted - excise taxes	50,639
Certificates of deposit, including accrued interest	929,795
Certificates of deposit - restricted - Friends of Shafer Park	40,409
Investments - repurchase agreements	1,123,109
Accounts receivable	103,453
Property taxes receivable, net of allowance for uncollectible taxes of \$938	21
Loans receivable from sewer fund	908,187
Due from other funds	83,443
Due from third-party payment processor	86,198
Prepaid expenses	<u>20,076</u>
TOTAL ASSETS	<u>\$ 3,532,887</u>
LIABILITIES	
Accounts payable	\$ 134,259
Accrued expenses	88,177
Deposits	3,200
Due to other funds	<u>261,978</u>
Total Liabilities	<u>487,614</u>
FUND BALANCE	
Nonspendable	928,263
Restricted	255,241
Committed	34,684
Unassigned	<u>1,827,085</u>
Total Fund Balance	<u>3,045,273</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,532,887</u>

MAYOR AND COUNCIL OF BOONSBORO
Reconciliation of Fund Balance to Net Position of Governmental Activities
June 30, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 3,045,273

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 3,925,283

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 (1,124,676)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 5,845,880

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues, Expenditures and Changes In Fund Balance
Governmental Fund
Year Ended June 30, 2016

	General Fund
REVENUES	
Local property taxes, net of discounts	\$ 1,015,708
Licenses and permits	44,851
Grants and shared taxes	710,490
Charges for services	76,456
Other revenue	<u>79,896</u>
Total Revenues	<u>1,927,401</u>
EXPENDITURES	
General government	323,153
Public safety	432,831
Highways and streets	278,093
Sanitation	166,225
Recreation and parks	50,474
Non-departmental expenditures	235,727
Capital outlay	694,955
Debt retirement - interest	26,088
Debt retirement - principal	<u>208,745</u>
Total Expenditures	<u>2,416,291</u>
Deficiency of Revenues Under Expenditures	(488,890)
FUND BALANCE - BEGINNING OF YEAR	<u>3,534,163</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 3,045,273</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, 2016

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ (488,890)

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. 694,955

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. (208,636)

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. 208,745

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 206,174

MAYOR AND COUNCIL OF BOONSBORO
Statement of Net Position – Proprietary Funds
June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets			
Cash	\$ 245,787	\$ 31,494	\$ 277,281
Certificates of deposit, including accrued interest	325,891	160,776	486,667
Investments - repurchase agreements	-	38,725	38,725
Receivables:			
Sewer service	-	239,824	239,824
Water service	163,446	-	163,446
Grants	-	86,253	86,253
Other, net of allowance for doubtful accounts of \$594,723	-	-	-
Due from other funds	146,463	137,808	284,271
Total Current Assets	881,587	694,880	1,576,467
Fixed Assets			
Property, plant and equipment	7,404,864	14,379,012	21,783,876
Construction in progress	5,514	172,898	178,412
Less accumulated depreciation	<u>(3,231,260)</u>	<u>(5,767,212)</u>	<u>(8,998,472)</u>
Total Noncurrent Assets	4,179,118	8,784,698	12,963,816
TOTAL ASSETS	\$ 5,060,705	\$ 9,479,578	\$ 14,540,283
LIABILITIES AND NET POSITION			
Current Liabilities			
Outstanding checks in excess of bank balance	\$ -	\$ 21,827	\$ 21,827
Current maturities of long-term obligations	104,262	84,079	188,341
Matured bonds payable	-	697	697
Accounts payable	10,213	46,137	56,350
Unearned revenue - tap fees	2,000	1,101,433	1,103,433
Deposits	-	300	300
Due to other funds	33,318	72,418	105,736
Due to other government agency	15,388	23,988	39,376
Accrued interest	3,106	31,325	34,431
Accrued compensated absences	13,658	13,658	27,316
Accrued pension expense	<u>10,156</u>	<u>10,156</u>	<u>20,312</u>
Total Current Liabilities	192,101	1,406,018	1,598,119
Noncurrent Liabilities			
Note payable - Park View sewer rehabilitation	-	49,988	49,988
Loan payable - General Fund	-	58,880	58,880
Loan payable - General Fund #2	-	849,307	849,307
Bond payable - WWTP upgrade - USDA	-	5,478,215	5,478,215
Bond payable - WWTP upgrade - MDE	-	1,527,866	1,527,866
Note payable - MDE	93,155	-	93,155
Note payable - MDE - Alt. 40 Extension	44,384	-	44,384
Note payable - MDE - Alt. 40 Extension #2	155,519	-	155,519
General obligation bonds payable	91,526	-	91,526
Note payable - BB&T - SHA Main St. Waterline	173,001	-	173,001
Note payable - BB&T - Maple Ave. Waterline	<u>111,963</u>	<u>-</u>	<u>111,963</u>
Total Noncurrent Liabilities	669,548	7,964,256	8,633,804
Total Liabilities	861,649	9,370,274	10,231,923
NET POSITION			
Net investment in capital assets	3,405,308	1,643,853	5,049,161
Restricted - WWTP	-	1,007	1,007
Unrestricted (Deficit)	<u>793,748</u>	<u>(1,535,556)</u>	<u>(741,808)</u>
Total Net Position	4,199,056	109,304	4,308,360
TOTAL LIABILITIES AND NET POSITION	\$ 5,060,705	\$ 9,479,578	\$ 14,540,283

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 508,742	\$ 837,890	\$ 1,346,632
Charges for debt service	22,629	-	22,629
Charges for administration	60,524	-	60,524
Grants	-	150,000	150,000
Connection fees and user fees	237,050	335,000	572,050
Other income	13,024	1,699	14,723
Total Operating Revenues	841,969	1,324,589	2,166,558
OPERATING EXPENSES			
Depreciation	145,634	645,901	791,535
Advertising	334	687	1,021
Maintenance and repairs	146,520	110,019	256,539
Chemicals	13,784	50,892	64,676
Biosolids removal	-	159,859	159,859
Electricity	58,151	102,832	160,983
Heating	316	316	632
Telephone	6,021	4,563	10,584
Salaries	209,704	211,310	421,014
Insurance	17,623	33,880	51,503
Health/life insurance expense	46,958	46,958	93,916
Audit	6,200	6,200	12,400
Legal fees	-	1,575	1,575
Supplies	13,165	12,078	25,243
Engineering fees	-	193	193
Miscellaneous	3,342	2,767	6,109
Uniforms	3,283	3,343	6,626
Professional memberships and certifications	3,090	2,189	5,279
Meeting expense	1,250	1,250	2,500
Payroll taxes	14,848	14,971	29,819
Pension expense	10,156	10,156	20,312
Postage	2,250	2,227	4,477
Testing	738	25,397	26,135
Truck expense	6,193	6,197	12,390
Connections - water meters	6,073	-	6,073
Equipment expense	9,130	4,285	13,415
Total Operating Expenses	724,763	1,460,045	2,184,808
Operating Income (Loss)	117,206	(135,456)	(18,250)
OTHER REVENUES AND (EXPENSES)			
Interest expense	(30,117)	(280,337)	(310,454)
Interest income	1,620	1,476	3,096
Total Other Revenues and (Expenses)	(28,497)	(278,861)	(307,358)
Change in Net Position	88,709	(414,317)	(325,608)
NET POSITION - BEGINNING OF YEAR	4,110,347	523,621	4,633,968
NET POSITION - END OF YEAR	\$ 4,199,056	\$ 109,304	\$ 4,308,360

MAYOR AND COUNCIL OF BOONSBORO
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 869,681	\$ 954,794	\$ 1,824,475
Cash payments to suppliers for goods and services	(401,892)	(580,660)	(982,552)
Cash payments to employees for services	(199,931)	(201,537)	(401,468)
Net Cash Provided by Operating Activities	267,858	172,597	440,455
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
(Increase) in due from other funds	(59,829)	(43,046)	(102,875)
Increase in due to other funds	5,637	43,244	48,881
Increase in due to other government agency	15,388	23,988	39,376
Proceeds on notes payable	-	238,503	238,503
Net Cash Provided by (Used In) Noncapital Financing Activities	(38,804)	262,689	223,885
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(100,275)	(225,129)	(325,404)
Interest paid on bonds and notes payable	(30,505)	(280,684)	(311,189)
Principal payments on notes and bonds payable	(53,090)	(80,745)	(133,835)
Net Cash (Used In) Capital and Related Financing Activities	(183,870)	(586,558)	(770,428)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash and investments	1,620	1,476	3,096
Purchases of certificates of deposit	(121,618)	(161,055)	(282,673)
Redemption of certificates of deposit	125,110	222,969	348,079
Net Cash Provided By Investing Activities	5,112	63,390	68,502
Net Increase (Decrease) in Cash and Cash Equivalents	50,296	(87,882)	(37,586)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	195,491	136,274	331,765
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 245,787	\$ 48,392	\$ 294,179

MAYOR AND COUNCIL OF BOONSBORO
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2016

(Continued)

**RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 117,206	\$ (135,456)	\$ (18,250)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:			
Depreciation	145,634	645,901	791,535
(Increase) decrease in receivables	27,712	(83,800)	(56,088)
Increase (decrease) in accounts payable	(34,055)	20,591	(13,464)
Decrease in unearned revenue - tap fees	-	(286,000)	(286,000)
Increase in accrued expenses	11,361	11,361	22,722
	<u>11,361</u>	<u>11,361</u>	<u>22,722</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 267,858</u>	<u>\$ 172,597</u>	<u>\$ 440,455</u>

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

Cash	\$ 245,787	\$ 31,494	\$ 277,281
Outstanding checks in excess of bank balance	-	(21,827)	(21,827)
Investments - repurchase agreements	-	38,725	38,725
	<u>\$ 245,787</u>	<u>\$ 48,392</u>	<u>\$ 294,179</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

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

The accompanying financial statements are presented as of June 30, 2016 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)

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. The Mayor and Council of Boonsboro delegates to the Town Manager the authority to assign fund balance.

Unassigned

This classification represents the portion of spendable fund balance that has not been categorized as Restricted, Committed or Assigned. A negative Unassigned fund balance may occur in any fund when there is an over expenditure of Restricted or Committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Taxpayer-assessed income is 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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The proprietary funds also recognize as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. 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 required 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, 2016.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	Years
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 (such as repurchase agreements) that have an original maturity of three months or less. Certificates of deposit are not considered cash equivalents, unless they are considered liquid certificates of deposit with no set maturity date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

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

Accounts Receivable

The Town provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Receivables are generally due thirty (30) days after billed. The Town considers allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, projection of trends, and other information. Management of the Town periodically reviews the collectability of accounts receivable, and those accounts which are considered not collectable are written off as bad debts. Based on management's review, an allowance for doubtful accounts 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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

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

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

Net Position

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

Net Investment in Capital Assets

Consists of capital assets grouped into one component of net position. Accumulated depreciation and the outstanding balances of debt, accounts payable, and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce the category. Net investment in capital assets as of June 30, 2016 consists of the following:

	<u>Government Wide Activities</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Capital assets	\$ 6,756,906	\$ 21,962,288	\$ 7,410,378	\$ 14,551,910
Accumulated depreciation	(2,831,623)	(8,998,472)	(3,231,260)	(5,767,212)
Debt	(1,124,676)	(7,914,655)	(773,810)	(7,140,845)
Net investment in capital assets	<u>\$ 2,800,607</u>	<u>\$ 5,049,161</u>	<u>\$ 3,405,308</u>	<u>\$ 1,643,853</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, 2016 the Town had restrictions of net position in the governmental activities of \$255,241 (See Note 9) and restrictions of net position in the business-type activities of \$1,007.

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, 2016

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

The Town's budget is comprised of the current operating budget. The current operating budget is based upon estimated revenues and expenditures of operation for the ensuing fiscal year. The Mayor and Council review the operating budget in regular public meetings and in a public hearing.

The Town Manager reviews the budget on a monthly basis. All expenditures are approved by the Mayor and Council. If the Mayor and Council approve expenditures not previously budgeted, the Town Manager amends the budget to better reflect comparison to actual results.

NOTE 3 CASH AND CERTIFICATES OF DEPOSIT

At June 30, 2016, the carrying amount of the Town's deposits, including interest receivable, was \$1,950,521. The related bank balances totaled \$2,086,425, including accrued interest.

Following is a schedule of the Town's deposits by financial institution at June 30, 2016:

BB&T	\$ 1,694,898
The Columbia Bank	331,190
Middletown Valley Bank	<u>60,337</u>
	<u>\$ 2,086,425</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 3 CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk, however, State law requires that deposits be insured or collateralized. As of June 30, 2016, \$1,564,673 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>\$ 1,564,673</u>
--	---------------------

NOTE 4 INVESTMENTS

As of June 30, 2016, 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>\$1,161,834</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 has 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 is 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, 2016

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land and land improvements	\$ 1,070,146	\$ -	\$ -	\$ 1,070,146
Construction in progress	-	27,797	-	27,797
Subtotal	<u>1,070,146</u>	<u>27,797</u>	<u>-</u>	<u>1,097,943</u>
Capital Assets, Being Depreciated				
Buildings	1,381,009	97,664	-	1,478,673
Machinery and equipment	844,408	155,867	(134,915)	865,360
Storm drainage	522,548	-	-	522,548
Road improvements	667,118	211,982	-	879,100
Park and playground equipment	1,711,640	201,645	-	1,913,285
Subtotal	<u>5,126,723</u>	<u>667,158</u>	<u>(134,915)</u>	<u>5,658,966</u>
Accumulated Depreciation				
Buildings	(966,030)	(27,760)	-	(993,790)
Machinery and equipment	(611,114)	(50,344)	134,915	(526,543)
Storm drainage	(408,756)	(3,660)	-	(412,416)
Road improvements	(214,041)	(35,170)	-	(249,211)
Park and playground equipment	(557,964)	(91,702)	-	(649,666)
Subtotal	<u>(2,757,905)</u>	<u>(208,636)</u>	<u>134,915</u>	<u>(2,831,626)</u>
NET CAPITAL ASSETS	<u>\$ 3,438,964</u>	<u>\$ 486,319</u>	<u>\$ -</u>	<u>\$ 3,925,283</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land and land improvements	\$ 103,845	\$ -	\$ -	\$ 103,845
Construction in progress	-	178,413	-	178,413
Subtotal	<u>103,845</u>	<u>178,413</u>	<u>-</u>	<u>282,258</u>
Capital Assets, Being Depreciated				
Land improvements	5,000	-	-	5,000
Buildings	140,532	-	-	140,532
Machinery and equipment	4,912,864	146,992	(60,026)	4,999,830
Utility plants	16,534,668	-	-	16,534,668
Subtotal	<u>21,593,064</u>	<u>146,992</u>	<u>(60,026)</u>	<u>21,680,030</u>
Accumulated Depreciation				
Land improvements	(5,000)	-	-	(5,000)
Buildings	(140,532)	-	-	(140,532)
Machinery and equipment	(2,609,992)	(101,581)	60,026	(2,651,547)
Utility plants	(5,511,439)	(689,954)	-	(6,201,393)
Subtotal	<u>(8,266,963)</u>	<u>(791,535)</u>	<u>60,026</u>	<u>(8,998,472)</u>
NET CAPITAL ASSETS	<u>\$ 13,429,946</u>	<u>\$ (466,130)</u>	<u>\$ -</u>	<u>\$ 12,963,816</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 5 CAPITAL ASSETS (CONTINUED)

DEPRECIATION WAS CHARGED TO FUNCTIONS AS FOLLOWS:

Governmental activities	
General government	\$ 45,106
Public safety	23,259
Highways & streets	35,342
Recreation and parks	104,929
Total Governmental-Type Activities Depreciation Expense	<u>208,636</u>
Business-Type Activities	
Water	145,634
Sewer	645,901
Total Business-Type Activities Depreciation Expense	<u>791,535</u>
TOTAL DEPRECIATION EXPENSE	<u>\$ 1,000,171</u>

NOTE 6 OTHER ACCRUED EXPENSES

Other accrued expenses include accrued compensated absences in the amounts of \$32,967 and \$27,316 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 that personal leave (which encompasses vacation and sick leave) may be accumulated up to a maximum of 45 days (360 hours), and any employee who terminates employment of the Town receives pay for all remaining earned but unused time. Employees also have the option to cash out up to one week of unused accrued personal leave within any given 12-month period. Any unused vacation in excess of the carryover amount is forfeited at the end of the fiscal year, unless otherwise approved by the Mayor and Council.

NOTE 7 LONG-TERM DEBT - PROPRIETARY FUND TYPES

The Sewer Fund obtained a \$58,880 loan from the General Fund for the purpose of financing repairs to the lagoon. Terms of the loan provide for semi-annual payments totaling \$5,888 commencing December 2001 through June 2012, at 0% interest. The loan is prepayable without penalty and is unsecured. The commencement of payments was postponed and no payments have been made as of June 30, 2016. 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
Sewer Fund					
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 \$7,430, including interest at a fixed rate of 1% commencing February 2006, through February 2024. The loan is unsecured.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Note payable - MDE	\$ 63,643	\$ -	\$ (6,793)	\$ 56,850	\$ 6,861

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 wastewater treatment plan (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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Bond payable - USDA	\$ 5,627,383	\$ -	\$ (72,950)	\$ 5,554,433	\$ 76,218

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
Sewer Fund					
Bond payable - MDE	\$ 1,529,866	\$ -	\$ (1,000)	\$ 1,528,866	\$ 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, 2016. These loans were made in addition to loans made in the prior year. As of June 30, 2016, the General Fund had loaned a total of \$849,307 to the Sewer Fund to cover these loan payments. The loan will be repaid to the General Fund when the outstanding amounts due from the developers are paid in full. Since it is unlikely that these payments will occur within one year, no current maturities are booked for this loan.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Sewer Fund					
Note payable - General Fund	\$ 610,804	\$ 238,503	\$ -	\$ 849,307	\$ -

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

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

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
General obligation bonds payable	\$ 128,191	\$ -	\$ (17,653)	\$ 110,538	\$ 19,011

During fiscal year 1999, the Town received a loan from MDE to assist in the funding of the Water Filtration Project. Under the agreement with MDE, the Town pays annual interest at 4.9% fixed beginning June 1999. Payments of \$11,158, including interest, are made annually beginning June 2001 and ending June 2028. In the event of a default, salvage rights shall be provided to the State of Maryland.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - MDE	\$ 105,426	\$ -	\$ (5,989)	\$ 99,437	\$ 6,283

During fiscal year 2009, the Town received a loan in the amount of \$78,000 from MDE to assist in the funding of the Alternate Route 40 Water Main Extension Project. The loan is for the engineering phase of the project. Draws of \$73,980 were made during the duration of the project. The loan is being amortized over 19 annual payments starting in February 2010. Interest, at a fixed rate of 2.20%, is being paid semi-annually in August and February. The loan is a general obligation of the Town, with the full faith and credit and taxing power of the Town pledged.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - MDE	\$ 52,006	\$ -	\$ (3,770)	\$ 48,236	\$ 3,853

In July 2009, the Town received an additional loan in the amount of \$281,000 from MDE to assist in the funding of the Alternate Route 40 Water Main Extension Project. This loan is for the construction phase of the project. Total drawn during the duration of the project was \$253,574. The loan is being amortized over 19 annual payments 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.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - MDE	\$ 183,943	\$ -	\$ (14,141)	\$ 169,802	\$ 14,282

On November 29, 2009, the Town entered into a loan agreement with BB&T 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.

This loan was refinanced on April 6, 2016. Under the terms of the refinanced agreement, the Town is required to continue making monthly interest only payments at a reduced fixed rate of 2.1%. In addition to the 84 regularly scheduled interest payments, the Town is required to make annual principal payments of \$14,417 beginning September 29, 2016 with the final payment of all unpaid principal and accrued interest to be due and payable March 29, 2023. All other terms of the original agreement remain in effect.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - BB&T	\$ 213,334	\$ -	\$ (11,500)	\$ 201,834	\$ 28,833

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Water Fund					
Note payable - BB&T	\$ 144,000	\$ -	\$ (37)	\$ 143,963	\$ 32,000

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

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

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

Year Ending June 30,	Principal	Interest
2017	\$ 188,341	\$ 278,811
2018	275,048	271,283
2019	281,826	263,463
2020	288,791	255,351
2021	296,220	246,885
2022-2026	1,310,354	1,174,771
2027-2031	1,296,822	953,927
2032-2036	800,017	790,006
2037-2041	994,454	595,566
2042-2046	1,236,151	353,869
2047-2050	945,934	73,139
	<u>\$ 7,913,958</u>	<u>\$ 5,257,071</u>

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

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, 2016 is \$124,000.

On January 26, 2005, the Town entered into a loan agreement with BB&T in which \$2,000,000 was available to fund Shafer Park improvements. The loan is collateralized by park real estate. At June 30, 2016, \$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, 2016 is \$950,676.

On September 11, 2014, the Town obtained a \$150,000 note payable from BB&T 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. The balance of the note at June 30, 2016 is \$50,000.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Maturities
Note Payable - MWQFA	\$ 139,500	\$ -	\$ (15,500)	\$ 124,000	\$ 15,500
Loan Payable - BB&T	1,093,921	-	(143,245)	950,676	147,384
Loan Payable - BB&T	100,000	-	(50,000)	50,000	50,000
	<u>\$ 1,333,421</u>	<u>\$ -</u>	<u>\$ (208,745)</u>	<u>\$ 1,124,676</u>	<u>\$ 212,884</u>

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 8 LONG-TERM DEBT - GOVERNMENTAL FUND (CONTINUED)

Requirements for payments in future years are as follows:

Year Ending June 30,	Principal	Interest
2017	\$ 212,884	28,859
2018	167,144	23,539
2019	171,526	19,095
2020	176,035	14,524
2021	180,675	9,820
2022-2024	216,412	4,980
	<u>\$ 1,124,676</u>	<u>\$ 100,817</u>

NOTE 9 GOVERNMENTAL FUND BALANCES

The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2016 is as follows:

	General Fund
FUND BALANCES	
Nonspendable	
Long-term loan receivables	\$ 908,187
Prepaid expenses	20,076
	<u>\$ 928,263</u>
Restricted	
Excise tax	\$ 50,639
Hotel/Motel tax	59,250
WWTP	100,223
Friends of Shafer Park	40,409
Health insurance ACA rebate	4,720
	<u>\$ 255,241</u>
Committed	
Shafer Park expansion	\$ 34,684
	<u>\$ 34,684</u>
Unassigned	<u>\$ 1,827,085</u>
TOTAL FUND BALANCE	<u>\$ 3,045,273</u>

NOTE 10 DEPOSITS

Deposits in the General Fund, which amounted to \$3,200 at June 30, 2016, 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, 2016

NOTE 11 INTERFUND RECEIVABLES AND PAYABLES

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 33,318
	Sewer	50,125
Water	General	(124,170)
	Sewer	(22,293) *
Sewer	General	(137,808)
	Water	<u>22,293</u> *
Total		<u>\$ (178,535)</u>

* This represents the due to/from between business type activities. The total between governmental and business type activities is \$(178,535), net. Amounts owed to the general fund by the business type activities are \$83,443 and amounts owed to the business type activities from the general fund are \$261,978.

NOTE 12 PENSION PLAN

The Mayor and Council of Boonsboro Employee Pension Plan, administered by the Town, provides pension benefits for all of the Town's full-time employees through a defined contribution plan. Plan provisions and contribution requirements are established and may be amended by the Town. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after completing six months of employment. The Town's contributions for each employee (and income allocated to the employee's account) are fully vested after seven years' continuous service. Partial vesting begins after three years of service. The Town is obligated to contribute 7% of the employees' wages and the employee has the option to contribute to the plan. Contributions and earnings forfeited by employees who leave employment before seven years of service are used to reduce the Town's current-period contribution requirement. As of June 30, 2016, the Town has eighteen total full-time and part-time employees with fifteen employees participating in the plan. The employees of the Town made no contributions. The Town's contribution for fiscal year 2016 was \$61,693.

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 13 DEFERRED COMPENSATION PLAN

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

NOTE 14 RISK MANAGEMENT

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

The Town has joined with other State of Maryland local governments in a Local Government Insurance Trust (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

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, 2016

NOTE 15 BOONSBORO/KEEDYSVILLE WATER FILTRATION PROJECT (CONTINUED)

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

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

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

NOTE 16 CONTINGENCIES

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

NOTE 17 COMMITMENTS

The new wastewater treatment plant (WWTP) was completed with the help of USDA and MDE to comply with Maryland requirements. The project had a total cost of \$12,047,600 with \$7,991,000 of costs of the project funded through bonds (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, 2016

NOTE 18 AGREEMENTS WITH DEVELOPERS

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

During the year ended June 30, 2009, the Town entered into agreements with several developers, under which the Town has agreed to provide an allocated amount of sewer taps which have been guaranteed by the developers and will pay for the first 5 years of debt service related to the construction of the WWTP (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, 2016.

Included in the Statement of Net Position is unearned revenue – tap fees totaling \$1,103,433 for the year ended June 30, 2016. This will be recognized as revenue when the developers begin to utilize the taps. During the year ended June 30, 2016, the Town recognized \$286,000 of tap fee revenue that had previously been unearned.

NOTE 19 RISKS AND VULNERABILITY

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, 2016, 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 \$238,503 to cover the payments (see Note 7).

MAYOR AND COUNCIL OF BOONSBORO
Notes to Financial Statements
June 30, 2016

NOTE 20 RESTRICTED CASH

In July 2009, the Town established a segregated bank account, as required by MDE. The purpose of the account is to provide the funds to make debt service payments for the WWTP in the event one or more of the developers default on their payments to the Town. The current balance of the account at June 30, 2016 is \$100,223. 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, 2016 is \$40,409.

The Town also has a liquid certificate of deposit restricted for excise taxes. The restricted amount represents excise taxes collected by the Town but not yet spent in accordance with the Excise Tax Ordinance. The balance of the certificate at June 30, 2016 is \$86,275, and the restricted portion at June 30, 2016 is \$50,639.

NOTE 21 CONDUIT DEBT OBLIGATIONS

During the year ended June 30, 2016, the Town issued Economic Development Revenue Bonds in the amount of \$1,436,177 to provide assistance to the Humane Society of Washington County (Organization) for the acquisition and improvement of its operating facilities. The bonds are secured by the property financed and are payable solely from payments received on the underlying financing agreement. Upon repayment of the bonds, ownership of the acquired facilities transfers to the Organization served by the bond issuance. Neither the Mayor and Council of Boonsboro, MD, nor any public body thereof is obligated in any manner for repayment of the bonds. In accordance with the Governmental Accounting Standards Board, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2016, the Economic Development Revenue Bonds outstanding had an aggregate principal amount payable of \$1,408,926.

NOTE 22 SUBSEQUENT EVENTS

The Town has evaluated events and transactions subsequent to June 30, 2016 through October 26, 2016, 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, 2016 through October 26, 2016 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, 2016 (Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Property Taxes, Net of Discounts				
Real property	\$ 954,585	\$ 954,585	\$ 942,342	\$ (12,243)
Personal property - unincorporated	1,500	1,500	4,126	2,626
Personal property - incorporated	55,000	70,000	72,273	2,273
Penalties and interest	4,500	4,500	2,608	(1,892)
Discounts allowed	(13,500)	(13,500)	(12,598)	902
Payments in lieu of taxes	-	-	6,957	6,957
	<u>1,002,085</u>	<u>1,017,085</u>	<u>1,015,708</u>	<u>(1,377)</u>
Licenses and Permits				
Trader's	4,000	4,000	4,242	242
Alcoholic beverages	500	500	536	36
Planning and zoning	21,150	21,150	40,073	18,923
	<u>25,650</u>	<u>25,650</u>	<u>44,851</u>	<u>19,201</u>
Grants and Shared Taxes				
State of Maryland				
Income tax	300,000	300,000	360,617	60,617
Admissions	8,000	8,000	11,562	3,562
Highway tax	116,671	116,671	117,776	1,105
Grant for police protection	28,239	28,239	28,913	674
Snow removal assistance	-	-	16,453	16,453
Other grants and shared taxes	54,500	86,500	140,556	54,056
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	30,310	2,810
Parking fines	300	300	135	(165)
	<u>540,160</u>	<u>572,160</u>	<u>710,490</u>	<u>138,330</u>
Charges for Sanitation Services	<u>73,800</u>	<u>73,800</u>	<u>76,456</u>	<u>2,656</u>
Other Revenue				
Interest	10,000	10,000	21,033	11,033
Rental income	8,000	8,000	11,265	3,265
Cable TV franchise fees	21,000	21,000	22,282	1,282
Miscellaneous	-	12,500	12,816	316
Gain on disposal of assets	-	-	12,500	12,500
Prior year reserves	381,296	381,296	-	(381,296)
	<u>420,296</u>	<u>432,796</u>	<u>79,896</u>	<u>(352,900)</u>
Total Revenues	<u>2,061,991</u>	<u>2,121,491</u>	<u>1,927,401</u>	<u>(194,090)</u>

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures – Budget and Actual – General Fund
Year Ended June 30, 2016 (Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
General Government				
Mayor and Council				
Salaries	\$ 121,252	\$ 121,252	\$ 123,439	\$ (2,187)
Operating expenses	32,170	32,170	54,349	(22,179)
Contributions and donations	1,000	1,000	22,038	(21,038)
Treasurer - salary	1,000	1,000	1,000	-
Legal, audit and retirement administration	19,550	19,550	10,817	8,733
Planning and zoning	10,570	10,570	20,105	(9,535)
Town building operating expenses	59,000	59,000	75,255	(16,255)
Economic Development Commission	21,150	21,150	16,150	5,000
Environmental Commission	10,000	10,000	-	10,000
	<u>275,692</u>	<u>275,692</u>	<u>323,153</u>	<u>(47,461)</u>
Total General Government				
Public Safety				
Police department				
Chief salary	57,098	57,098	64,304	(7,206)
Officer salaries	203,402	203,402	249,440	(46,038)
Equipment	18,995	18,995	13,208	5,787
Uniforms	3,000	3,000	1,893	1,107
Supplies	3,000	3,000	3,160	(160)
Telephone	1,500	1,500	3,136	(1,636)
Cell phones	3,600	3,600	2,894	706
Training	2,500	2,500	286	2,214
Building maintenance	16,000	16,000	10,276	5,724
Vehicle maintenance	8,000	8,000	13,695	(5,695)
Vehicle gas	18,000	18,000	13,631	4,369
Other police and public safety expenses	-	-	370	(370)
Police and public safety committee meetings	700	700	520	180
Night Out expense	1,250	1,250	1,568	(318)
Volunteer company contributions				
Fire department	21,000	21,000	22,000	(1,000)
Fire hydrants	7,000	7,000	11,450	(4,450)
Ambulance service	21,000	21,000	21,000	-
	<u>386,045</u>	<u>386,045</u>	<u>432,831</u>	<u>(46,786)</u>
Total Public Safety				
Highways and Streets				
Salaries	79,000	79,000	85,755	(6,755)
Street lighting	55,000	55,000	53,722	1,278
Maintenance and operating expenses	84,000	90,508	78,380	12,128
Snow removal	10,000	10,000	60,236	(50,236)
	<u>228,000</u>	<u>234,508</u>	<u>278,093</u>	<u>(43,585)</u>
Total Highways and Streets				
Sanitation				
	<u>170,000</u>	<u>170,000</u>	<u>166,225</u>	<u>3,775</u>

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures – Budget and Actual – General Fund
Year Ended June 30, 2016 (Unaudited)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Recreation and Parks				
Salaries	\$ 770	\$ 770	\$ 890	\$ (120)
Park grounds maintenance	13,000	13,000	21,678	(8,678)
Park facilities maintenance	12,500	12,500	13,908	(1,408)
Operating expenses	19,550	19,550	13,998	5,552
Total Recreation and Parks	45,820	45,820	50,474	(4,654)
Non-Departmental Expenditures				
Insurance	13,400	13,400	17,076	(3,676)
Health insurance	100,000	100,000	107,687	(7,687)
Retirement	35,000	35,000	41,381	(6,381)
Workers compensation	13,500	13,500	23,097	(9,597)
Payroll taxes	40,000	40,000	41,413	(1,413)
Contingency fund	19,526	19,526	-	19,526
Miscellaneous expense	1,500	1,500	5,074	(3,574)
Total Non-Departmental Expenditures	222,926	222,926	235,728	(12,802)
Capital Outlay				
Equipment	105,000	120,000	143,916	(23,916)
Buildings	69,000	96,500	97,664	(1,164)
Police department capital expense	19,500	19,500	11,951	7,549
Long-term capital improvements	309,508	320,000	441,424	(121,424)
Total Capital Outlay	503,008	556,000	694,955	(138,955)
Debt Retirement				
Interest expense	-	-	26,088	(26,088)
Park expansion principal	165,000	165,000	143,244	21,756
CIP loan principal	50,000	50,000	50,000	-
Mortgage wellhead protection property	15,500	15,500	15,500	-
Total Debt Retirement	230,500	230,500	234,832	(4,332)
Total Expenditures	2,061,991	2,121,491	2,416,291	(294,800)
DEFICIENCY OF REVENUES UNDER EXPENDITURES	\$ -	\$ -	(488,890)	488,890
FUND BALANCE - BEGINNING OF YEAR			3,534,163	
FUND BALANCE - END OF YEAR			\$ 3,045,273	

MAYOR AND COUNCIL OF BOONSBORO
Statement of Revenues and Expenditures – Budget and Actual – Water Utility Fund
(Budgetary Basis)
Year Ended June 30, 2016 (Unaudited)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 545,040	\$ 545,040	\$ 508,742	\$ (36,298)
Charges for debt services	20,000	20,000	22,629	2,629
Charges for administration	54,546	54,546	60,524	5,978
Connection fees and user fees	150,000	150,000	237,050	87,050
Other income	11,300	11,300	13,024	1,724
Total Operating Revenues	780,886	780,886	841,969	61,083
OPERATING EXPENSES				
Maintenance and repairs	135,000	135,000	146,520	(11,520)
Chemicals	12,000	12,000	13,784	(1,784)
Electricity	50,000	50,000	58,151	(8,151)
Heating	1,500	1,500	316	1,184
Telephone	5,500	5,500	6,021	(521)
Advertising	500	500	334	166
Salaries	190,000	190,000	209,704	(19,704)
Insurance	15,000	15,000	17,623	(2,623)
Health/life insurance expense	36,000	36,000	46,958	(10,958)
Audit	5,000	5,000	6,200	(1,200)
Legal fees	500	500	-	500
Supplies	8,500	8,500	13,165	(4,665)
Miscellaneous	100	100	3,342	(3,242)
Uniforms	1,500	1,500	3,283	(1,783)
Professional memberships and certifications	2,000	2,000	3,090	(1,090)
Meeting expense	1,200	1,200	1,250	(50)
Payroll taxes	9,500	9,500	14,848	(5,348)
Pension expense	9,000	9,000	10,156	(1,156)
Testing	1,000	1,000	738	262
Truck expense	10,000	10,000	6,193	3,807
Equipment expense	10,000	10,000	9,130	870
Connections - water meters	20,000	20,000	6,073	13,927
Contingency fund	55,436	55,436	-	55,436
Postage	2,500	2,500	2,250	250
Capital outlay	105,250	105,250	100,275	4,975
Total Operating Expenses	686,986	686,986	679,404	7,582
Operating Income	93,900	93,900	162,565	68,665
OTHER REVENUES AND (EXPENSES)				
Interest expense	(24,000)	(24,000)	(30,117)	(6,117)
Debt service (principal)	(70,300)	(70,300)	(53,090)	17,210
Interest income	400	400	1,620	1,220
Total other revenues and (expenses)	(93,900)	(93,900)	(81,587)	12,313
NET INCOME	\$ -	\$ -	\$ 80,978	\$ 80,978

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, 2016 (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>
OPERATING REVENUES				
Charges for services	\$ 896,836	\$ 896,836	\$ 837,890	\$ (58,946)
Bay Restoration Fund collections	72,000	72,000	-	(72,000)
Grants	-	-	150,000	150,000
Connection fees and user fees	-	-	335,000	335,000
Miscellaneous income	500	500	1,699	1,199
Total Operating Revenues	969,336	969,336	1,324,589	355,253
OPERATING EXPENSES				
Maintenance and repairs	90,000	90,000	110,019	(20,019)
Chemicals	50,000	50,000	50,892	(892)
Biosolids removal	115,000	115,000	159,859	(44,859)
Electricity	60,000	60,000	102,832	(42,832)
Heating	1,500	1,500	316	1,184
Telephone	4,500	4,500	4,563	(63)
Salaries	187,500	187,500	211,310	(23,810)
Insurance	41,000	41,000	33,880	7,120
Health/life insurance expense	36,000	36,000	46,958	(10,958)
Advertising	500	500	687	(187)
Audit	5,000	5,000	6,200	(1,200)
Legal fees	-	-	1,575	(1,575)
Supplies	8,500	8,500	12,078	(3,578)
Engineering fees	-	-	193	(193)
Miscellaneous	100	100	2,767	(2,667)
Contingency fund	20,804	20,804	-	20,804
Uniforms	1,500	1,500	3,343	(1,843)
Professional memberships and certifications	1,000	1,000	2,189	(1,189)
Meeting expense	1,200	1,200	1,250	(50)
Payroll taxes	9,500	9,500	14,971	(5,471)
Pension expense	9,000	9,000	10,156	(1,156)
Testing	20,000	20,000	25,397	(5,397)
Truck expense	5,500	5,500	6,197	(697)
Equipment expense	4,000	4,000	4,285	(285)
Postage	1,500	1,500	2,227	(727)
Capital outlay	113,750	113,750	225,129	(111,379)
Total Operating Expenses	787,354	787,354	1,039,273	(251,919)
Operating Income	181,982	181,982	285,316	103,334
OTHER REVENUES AND (EXPENSES)				
Interest expense	(83,135)	(83,135)	(280,337)	(197,202)
Debt service (principal)	(27,147)	(27,147)	(80,743)	(53,596)
Bay Restoration Fund payments	(72,000)	(72,000)	-	72,000
Interest income	300	300	1,476	1,176
Total other revenues and (expenses)	(181,982)	(181,982)	(359,604)	(177,622)
NET INCOME	\$ -	\$ -	\$ (74,288)	\$ (74,288)

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, 2016, 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 26, 2016.

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 2016-001 through 2016-006 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-007 to be a significant deficiency.



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 26, 2016

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2016

FINDING 2016-001

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. This is a repeat finding.

**Condition/
Context:** During the course of our audit, we noted that for part of the year, revenues were recognized on the cash basis of accounting and not the accrual basis. The remainder of the year was recognized on the accrual basis; however, as a result, five quarters of revenue were recorded. This created a significant overstatement of revenue in all three funds. We further noted that several year-end receivables were not properly recorded 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 some revenues when cash was received rather than when the revenue was actually earned. Additionally, some revenues were missed due to the related receivables not being recorded.

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 consistently 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 acknowledges the recommendation and will post revenues on an accrual basis. The Town currently keeps its books open past year end; however will track year-end receivables so future adjustments are not required.

FINDING 2016-002

Criteria: During the audit, several bank accounts were found to not be properly and completely reconciled. Additionally, it was noted that bank account reconciliations were not performed timely; in some cases the reconciliations were performed several months after the bank statements were received. This is a repeat finding.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2016

Condition/Context: Monthly bank account reconciliations are the primary internal control procedure related to the Town's cash accounts. During FY 2016, most bank account reconciliations were prepared; however, several accounts were reconciled incompletely or incorrectly, and one account was not reconciled at all for the year. We also 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). Additionally, we noted two bank reconciliations with stale outstanding checks. In some cases, the outstanding checks were up to three years old. Through discussions with management, it was determined that the status of these "stale" checks had not been investigated. We further noted that three account reconciliations included prior year audit adjustments that should have been reversed in the current year. Because the adjustments were not reversed, cash was overstated by approximately \$87,000 in one account, overstated by approximately \$8,000 in another account, and understated by approximately \$8,000 in the third account. Lastly, we noted one bank reconciliation that had an outstanding check listed when the check was not actually written until two weeks after year-end.

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

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. Furthermore, an independent review should also be performed timely, ideally within one week of the preparation of bank reconciliations. 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 stale checks be investigated and cleared immediately, and that state escheat laws be followed in reporting such checks. Additionally, we recommend that only checks written prior to month-end be included in the outstanding checks listing. Finally, we recommend that audit adjustments be reviewed and reversed when appropriate. These procedures will ensure that monthly reports to the Mayor and Council can be more easily relied upon to provide accurate financial information.

Management Response: The Town accepts the recommendation. The Town Clerk acknowledges and will perform monthly reconciliations of all accounts. Upon completion of each reconciliation, the Town Manager will review.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2016

FINDING 2016-003

- Criteria:** During the audit, items were found to be posted incorrectly and subsidiary ledgers were not reconciled to the general ledger. Significant 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. 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. The accounts payable aging report in the Town's accounting software also did not agree to the general ledger balance. Lastly, because some 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 accepts the recommendation. The Town Clerk acknowledges and will perform monthly reconciliations of all accounts. Upon completion of each reconciliation, the Town Manager will review.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2016

FINDING 2016-004

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 journal entries made during the year. 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.
Cause:	There is no independent review of journal entries.
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. This review should be done timely and in conjunction with month-end closing procedures.
Management Response:	The Town accepts the recommendation and will have another staff member review adjusting entries.

FINDING 2016-005

Criteria:	During our documentation of internal control processes and testing of investments, we noted that there is no monthly recording of investment income in the general ledger.
Condition/Context:	During our audit, we noted that investment income had not been recorded during the year.
Cause:	Investment income was not recorded.
Effect:	Investments and interest income could be incorrectly stated.
Recommendation:	We recommend that the Town Clerk record monthly investment income and that the Town Manager review account statements to ensure interest is properly recorded when earned.
Management Response:	The Town accepts the recommendation and will record in the general ledger.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2016

FINDING 2016-006

Criteria: Transactions made through third-party accounts should be properly reflected in the Town's accounting records and transfers should be made monthly. This is a repeat finding.

Condition/Context: During FY15, the Town began utilizing a third-party online payment system (PayPal) to allow residents to make utility payments. We noted during the audit that funds collected via PayPal in FY16 were not deposited into the Town's bank account in a timely manner and monthly reconciliations were not performed. At the time fieldwork commenced, the Town's PayPal account had approximately \$98,000 in it, which included all funds collected through PayPal for FY16 and some for FY17. Failure to properly reconcile PayPal funds was a large contributor to the due to/from accounts not being properly reconciled.

Cause: The Town has not properly recorded cash collected through PayPal.

Effect: Cash could be understated and receivables could be overstated. Additionally, funds sitting in a PayPal account could be subject to misappropriation if not subject to the same accounting treatment and oversight as all other transactions. Lastly, since the Town also collects funds on behalf of another local government, the amounts owed to the other government could be understated.

Recommendation: We recommend that transfers from PayPal to the Town's bank account are made monthly, 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 and amounts due to the other local government. Lastly, we recommend that when the account is reconciled, accounting personnel ensure the proper due to/from transactions are also posted to the Town's general ledger accounts.

Management Response: The Town accepts the recommendation. The Town Clerk will make transfers and perform monthly reconciliations, and the Town Manager will review.

FINDING 2016-007

Criteria: Grant revenues and expenditures are not formally reconciled.

Condition/Context: The Town receives various grant awards from federal, state, and local agencies. Aside from recording the grant revenues when funds are received and recording expenses when incurred, no formal tracking of grant funds is maintained. In FY16, the lack of proper grant tracking led to revenue and receivables being understated in the general ledger.

Cause: The Town has not formally reconciled grant revenues and expenditures.

MAYOR AND COUNCIL OF BOONSBORO
Schedule of Findings and Responses
June 30, 2016

Effect: Revenues and expenses could be misstated. Additionally, lack of a formal tracking mechanism could lead to excessive expenditures and/or loss of grant revenues.

Recommendation: We recommend that the Town maintain separate formal grant reconciliations for each grant received. Reconciliations should include total grant amount awarded, cash received, grant receivables, and related expenditures made to-date. This tracking system will help to ensure that revenues are recorded in the proper period and that any receivables are also recorded properly. Additionally, if funds have not been fully expended at the end of a fiscal year, grant reconciliations will aide in providing management and the council with amounts still available to be spent going forward. Grant reconciliations can help ensure that grant funds are classified properly and spent appropriately.

Management Response: Tracking of grant revenues and expenditures were completed. In the future, this information will be provided during field work.