



The Town of Emmitsburg, Maryland

**FINANCIAL STATEMENTS, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

FOR THE YEAR ENDED JUNE 30, 2014



DRAPER & MCGINLEY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS • FINANCIAL CONSULTANTS
FREDERICK, MARYLAND

TOWN OF EMMITSBURG, MARYLAND
SUMMARY OF ELECTED AND APPOINTED OFFICIALS

JUNE 30, 2014

MAYOR

Donald N. Briggs

COMMISSIONERS

Glenn Blanchard

Jennifer Mellor

Tim O'Donnell

Christopher Staiger

Clifford L. Sweeney

TOWN MANAGER

David Haller

TOWN CLERK

Cathy Willets

TOWN AUDITOR

Draper & McGinley, P.A.

TOWN ATTORNEY

John R. Clapp, Esquire

TOWN OF EMMITSBURG, MARYLAND

FINANCIAL STATEMENTS, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2014

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Draper & McGinley, P.A.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 Town of Emmitsburg, Maryland, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–8 and 33-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Emmitsburg, Maryland's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures, applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, on our consideration of the Town of Emmitsburg, Maryland'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 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 Town of Emmitsburg, Maryland's internal control over financial reporting and compliance.

Frederick, Maryland
October 29, 2014

Draper & McGinley, P.A.

TOWN OF EMMITSBURG

300A South Seton Avenue
Emmitsburg, Maryland 21727
301-600-6300 fax 301-600-6313

Mayor
Donald N. Briggs
Town Manager
David Haller
Town Clerk
Donna DesPres

Board of Commissioners
Tim O'Donnell , President
Clifford L. Sweeney
Christopher Staiger
Glenn Blanchard
Jennifer Mellor

TOWN OF EMMITSBURG, MARYLAND MANAGEMENT'S DISCUSSION AND ANALYSIS

October 29, 2014

As management of the Town of Emmitsburg, Maryland, we offer readers of the Town of Emmitsburg's financial statements this narrative overview and analysis of the financial activities of the Town of Emmitsburg as of and for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with all other information furnished in this package.

FINANCIAL HIGHLIGHTS:

1. The Town's government-wide net position increased \$7,529,807 in fiscal year 2014 as compared to an increase of \$1,263,719 in fiscal year 2013. This was primarily due to the construction in progress of the Town's Waste Water Treatment Plant.
2. The assets of the Town of Emmitsburg exceeded its liabilities and deferred inflows of resources as of June 30, 2014 as below noted:
Governmental Activities \$4,996,480 (up \$240,794 from last year)
Business Type Activities – Enterprise Funds..... \$24,405,043 (up \$7,289,013 from last year):
primarily due to increased construction in progress.

Of the total net position, \$3,865,059 is unrestricted, \$1,093,880 is restricted and \$24,442,584 is net investment in capital assets.
3. Total governmental and business-type assets were \$5,709,492 and \$32,008,103 respectively. Amounts invested in capital assets; net for governmental and business-type activities were \$3,688,135 and \$27,273,575 respectively.
4. The Town's total liabilities as of June 30, 2014 were \$8,180,240. Of that amount \$6,271,856 are long-term liabilities. These amounts are roughly double from the prior fiscal year. This is due to the interim financing for the Town's Waste Water Treatment Plant construction.

5. As of June 30, 2014, the Town of Emmitsburg's governmental funds reported a combined ending fund balance of \$1,737,480 (up \$206,655 from last year). Of that amount, \$1,102,137 is unassigned and available for spending (up \$73,785 or 7% from last year).
6. As of June 30, 2014, the Town of Emmitsburg's revenues were as herein noted: General Fund \$1,796,745 (up \$29,117 or 2% from last year), Enterprise Fund's operating revenue was \$1,276,002 (up \$58,737 or 5% from last year). An increase in intergovernmental revenues, primarily from a onetime State Highway Use Grant, contributed to the general fund variance. An increase in water rates at the beginning of the fiscal year was responsible for the business-type revenue variance.
7. As of June 30, 2014 the Town of Emmitsburg's expenditures were as herein noted; General Fund \$1,590,090 (up \$33,746 or 2% from last year), Enterprise Fund's operating expenditures \$1,259,071 (up \$68,325 or 6% from last year). The general fund's increase is contributable to an increase in general government expenditures. The Enterprise Fund's increase is contributable to an increase in personnel services and operating expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the Town of Emmitsburg's basic financial statements. The Town of Emmitsburg's basic financial statements are comprised of three (3) components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Emmitsburg's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Emmitsburg include legislative, executive,

planning and zoning, public safety, garbage, streets, recreation & parks and other charges. The major business-type activities of the Town of Emmitsburg include the water & sewer enterprise funds.

The government-wide financial statements include only the Town of Emmitsburg itself (known as the primary government).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Emmitsburg can be divided into two (2) categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

Proprietary funds. The Town of Emmitsburg maintains two proprietary or enterprise funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Town of Emmitsburg operates a Sanitary Sewer Enterprise Fund and a Water Enterprise Fund.

Notes to the Financial Statements. These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

With all of the aforementioned stated, please review the following data closely for a detailed accounting of the financial activities and assets of the Town of Emmitsburg, Maryland.

The following table summarizes revenues and expenses for the governmental activities of the Town and totals for the government overall.

	2013	2014	2013	2014
REVENUES				
Program Revenues				
Operating grants and contributions	\$ 66,519	\$ 153,863	\$ 66,519	\$ 153,863
Charges for services	282,113	262,387	1,499,378	1,540,143
General Revenues				
Taxes	896,653	899,280	896,653	899,280
Intergovernmental	375,343	372,491	375,343	372,491
Interest	3,080	1,379	6,237	2,789
Miscellaneous	30,744	32,121	44,652	43,061
Capital grants and contributions	113,175	74,981	1,128,700	7,393,167
TOTAL REVENUES	1,767,627	1,796,502	4,017,482	10,404,794
PROGRAM EXPENSES				
General government	\$ 563,143	\$ 556,692	\$ 563,143	\$ 556,692
Public safety	237,239	223,481	237,239	223,481
Public works	538,387	567,966	538,387	567,966
Recreation and culture	139,463	189,650	139,463	189,650
Interest	19,257	17,919	19,257	17,919
Business-type activities			1,256,274	1,319,279
TOTAL PROGRAM EXPENSES	1,497,489	1,555,708	2,753,763	2,874,987
TRANSFERS			-	
CHANGE IN NET POSITION	\$ 270,138	\$ 240,794	\$ 1,263,719	\$ 7,529,807

Budget Variances

In comparing the final budget amounts to the actual expenditures for the Town's General Fund the Town's revenues exceeded the budget by \$118K. Revenues from taxes, licensing, permits, and service charges were consistent with budgeted amounts. One time grants received for road use and LED light implementation accounted for a majority of the excess. General Fund expenditures were below budget by \$81K. Savings in electric and street light upkeep helped account for a good portion of the difference. Also, Contractual expenses were lower than anticipated in the fiscal year.

Budget Year Fiscal Year 2015

The Town of Emmitsburg will continue to make a considerable annual investment, via its Enterprise Funds, in infrastructure re-construction and maintenance in an effort to play catch-up after many years of inadequate funding in this area. Construction continues on the state-required enhanced nutrient removal via new wastewater treatment plant. This construction is 70% grant-funded through MDE and USDA. The Town-funded portion is being accomplished with PNC interim financing supported by a USDA bond anticipation note. The anticipated completion date is June 2015. The accomplished design of a future water treatment facility for the well in the Emmitt Gardens area is delayed until possibly 2015. The second phase of increased sewer rates to subsidize increased operating costs of the new plant began in 2014. Due to continued underfunding of operating expenses to include depreciation and replacement costs, an increase in water rates was instituted in 2013.

LED lighting replacement in the total stock of the town's streetlights in the prior fiscal year has reduced lighting electric costs in this current fiscal year. Also, plans and approvals have begun for the lease of town property to provide a solar field from which electricity can be purchased at a reduced rate. This will also provide a more economical source of electricity for increased operation costs of the new wastewater treatment plant.

Due to prior years' intergovernmental funding shortages and the reinstatement of some of those funds, and the town's fiscal responsiveness; the town has continued to recover to the extent of being able to provide an adequate annual provision to try to bring its replacement funds up to date enabling the resumption of needed improvements and replacements.

The real estate tax rate will remain unchanged from fiscal year 2014. The *constant yield rate* was determined at the same rate as 2014. Real Estate Tax revenue held steady in both fiscal years 2013 & 2014.

Approved fiscal year 2015 General Fund revenues budget is \$1,702,793. Budgeted General Fund expenses before transfer to CIP is \$1,478,579. General Fund budgeted transfer to CIP is \$223,214.

Request for more information:

This financial report is designed to provide a general overview of the Town of Emmitsburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Town Manager, 300A S. Seton Avenue, Emmitsburg, Maryland 21727.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents:			
Unrestricted	\$ 1,820,100	\$ 1,158,761	\$ 2,978,861
Restricted	-	1,084,080	1,084,080
Property taxes receivable	3,776	-	3,776
Accounts receivable, net of allowance	45,675	353,425	399,100
Benefit assessments	-	3,200	3,200
Other receivables	45,042	-	45,042
Prepaid expenses	19,726	-	19,726
Due from other governmental agencies	87,038	2,106,736	2,193,774
Capital assets:			
Land and land improvements	1,164,089	2,669,550	3,833,639
Infrastructure	4,393,796	10,144,153	14,537,949
Construction in progress	87,408	14,080,719	14,168,127
Buildings and improvements	1,358,252	6,876,073	8,234,325
Machinery and equipment	556,812	183,748	740,560
	<u>7,560,357</u>	<u>33,954,243</u>	<u>41,514,600</u>
Less: Accumulated Depreciation	<u>(3,872,222)</u>	<u>(6,680,668)</u>	<u>(10,552,890)</u>
Capital Assets, Net	<u>3,688,135</u>	<u>27,273,575</u>	<u>30,961,710</u>
Benefit assessments	<u>-</u>	<u>28,326</u>	<u>28,326</u>
Total Assets	<u>5,709,492</u>	<u>32,008,103</u>	<u>37,717,595</u>
Liabilities			
Accounts payable	112,244	1,232,048	1,344,292
Accrued liabilities	24,284	62,302	86,586
Compensated absences	109,411	61,563	170,974
Accrued interest	-	11,036	11,036
Benefit assessments	-	3,200	3,200
Noncurrent liabilities			
Benefit assessments	-	45,026	45,026
Debt - Due within one year	31,460	215,810	247,270
Debt -Due in more than one year	333,106	5,938,750	6,271,856
Total Liabilities	<u>610,505</u>	<u>7,569,735</u>	<u>8,180,240</u>
Deferred inflows of resources			
Unearned revenue	<u>102,506</u>	<u>33,326</u>	<u>135,832</u>
Net Position			
Net investment in capital assets	3,323,569	21,119,015	24,442,584
Restricted - specific purposes	9,800	1,084,080	1,093,880
Unrestricted	<u>1,663,111</u>	<u>2,201,948</u>	<u>3,865,059</u>
Total Net Position	<u>\$ 4,996,480</u>	<u>\$ 24,405,043</u>	<u>\$ 29,401,523</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs Primary government	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ (556,692)	\$ 43,498	\$ -	\$ -	\$ (513,194)	\$ -	\$ (513,194)
Public safety	(223,481)	-	16,305	-	(207,176)	-	(207,176)
Public works	(567,966)	197,294	137,558	16,648	(216,466)	-	(216,466)
Recreation and culture	(189,650)	21,595	-	58,333	(109,722)	-	(109,722)
Interest on long-term debt	(17,919)	-	-	-	(17,919)	-	(17,919)
Total governmental activities	<u>(1,555,708)</u>	<u>262,387</u>	<u>153,863</u>	<u>74,981</u>	<u>(1,064,477)</u>	<u>-</u>	<u>(1,064,477)</u>
Business-type activities							
Water services	(621,095)	533,951	-	475,600	-	388,456	388,456
Sewer services	(698,184)	743,805	-	6,842,586	-	6,888,207	6,888,207
Total primary government	<u>\$ (2,874,987)</u>	<u>\$ 1,540,143</u>	<u>\$ 153,863</u>	<u>\$ 7,393,167</u>	<u>(1,064,477)</u>	<u>7,276,663</u>	<u>6,212,186</u>
General Revenues							
Taxes							
Property taxes, levied for general purposes					648,961		648,961
Income taxes					217,385		217,385
Other local taxes					32,934		32,934
County tax equity					372,491		372,491
Income on investments					1,379	1,410	2,789
Miscellaneous income					32,121	10,940	43,061
Total general revenues					<u>1,305,271</u>	<u>12,350</u>	<u>1,317,621</u>
Change in net position					240,794	7,289,013	7,529,807
Net position - beginning of year					4,755,686	17,116,030	21,871,716
Net position - end of year					<u>\$ 4,996,480</u>	<u>\$ 24,405,043</u>	<u>\$ 29,401,523</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,188,286	\$ 631,814	\$ 1,820,100
Receivables			
Property taxes	3,776	-	3,776
Current assessments	45,675	-	45,675
Other	45,042	-	45,042
Due from other governments	73,287	13,751	87,038
Prepaid items	19,726	-	19,726
Total Assets	<u>\$ 1,375,792</u>	<u>\$ 645,565</u>	<u>\$ 2,021,357</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 110,830	\$ 1,414	\$ 112,244
Accrued liabilities	24,284	-	24,284
Total Liabilities	<u>135,114</u>	<u>1,414</u>	<u>136,528</u>
Deferred inflows of resources			
Unearned revenue	118,814	28,535	147,349
Fund Balances			
Non-spendable	19,726	-	19,726
Restricted	-	9,800	9,800
Assigned	-	605,816	605,816
Unassigned	1,102,138	-	1,102,138
Total Fund Balances	<u>1,121,864</u>	<u>615,616</u>	<u>1,737,480</u>
Total Liabilities and Fund Balances	<u>\$ 1,375,792</u>	<u>\$ 645,565</u>	<u>\$ 2,021,357</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Local property taxes	\$ 648,961	\$ -	\$ 648,961
Local income taxes	217,385	-	217,385
Other local taxes	32,934	-	32,934
Licenses and permits	36,628	-	36,628
Intergovernmental revenues	543,000	58,333	601,333
Service charges	220,808	-	220,808
Fines and forfeitures	4,950	-	4,950
Miscellaneous	30,866	2,880	33,746
Total Revenues	<u>1,735,532</u>	<u>61,213</u>	<u>1,796,745</u>
Expenditures			
General government	545,775	32,095	577,869
Public safety	221,030	2,450	223,480
Public works	396,462	147,741	544,203
Recreation and culture	159,826	37,101	196,927
Debt service	47,610	-	47,610
Total Expenditures	<u>1,370,703</u>	<u>219,387</u>	<u>1,590,090</u>
Excess (Deficiency) of			
Revenues over Expenditures	364,829	(158,174)	206,655
Other Financing Sources (Uses)			
Operating transfers in (out)	<u>(275,413)</u>	<u>275,413</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(275,413)</u>	<u>275,413</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) over Expenditures and Other Uses			
	89,416	117,239	206,655
Fund Balance July 1, 2013	<u>1,032,448</u>	<u>498,377</u>	
Fund Balance June 30, 2014	<u>\$ 1,121,864</u>	<u>\$ 615,616</u>	
Adjustments for the Statement of Activities			
Debt service expenditures			29,691
Depreciation expense			(203,271)
Capital outlay			193,310
Compensated absences			15,627
Change in deferred revenue			(243)
Loss on disposition of assets			(975)
Change in Net Position of Governmental Activities			<u>\$ 240,794</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
RECONCILIATION OF FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Fund balances - governmental funds \$ 1,737,480

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

Capital assets used in governmental activities are not financial resources, therefore are not reported in the funds

Property and equipment, net 3,688,135

Deferred revenue 44,842

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

Long-term debt (333,106)

Current portion - long-term obligations (31,460)

Compensated absences (109,411)

Net position - governmental activities \$ 4,996,480

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2014

Assets	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Totals
Current Assets			
Cash and cash equivalents:			
Unrestricted	\$ 541,830	\$ 616,931	\$ 1,158,761
Restricted	259,000	825,080	1,084,080
Customer accounts receivable	135,911	217,514	353,425
Due from other governments	-	2,106,736	2,106,736
Benefit assessments - current	3,200	-	3,200
Total Current Assets	939,941	3,766,261	4,706,202
Capital Assets			
Land and land improvements	2,420,881	248,669	2,669,550
Infrastructure	4,504,458	5,639,695	10,144,153
Construction in progress	228,115	13,852,604	14,080,719
Buildings and improvements	2,207,741	4,668,332	6,876,073
Machinery and equipment	61,383	122,365	183,748
	9,422,578	24,531,665	33,954,243
Less: Accumulated Depreciation	(2,237,505)	(4,443,163)	(6,680,668)
Capital Assets, Net	7,185,073	20,088,502	27,273,575
Benefit assessments - non-current	28,326	-	28,326
Total Assets	8,153,340	23,854,763	32,008,103
Liabilities			
Current Liabilities			
Accounts payable	16,571	1,215,477	1,232,048
Accrued liabilities	5,217	57,085	62,302
Compensated absences	40,926	20,637	61,563
Accrued interest	11,036	-	11,036
Benefit assessments	3,200	-	3,200
Debt obligations - current	129,299	86,511	215,810
Total Current Liabilities	206,249	1,379,710	1,585,959
Non-Current Liabilities			
Benefit assessments	45,026	-	45,026
Debt obligations	1,224,235	4,714,515	5,938,750
Total Liabilities	1,475,510	6,094,225	7,569,735
Deferred Inflows of Resources			
Unearned revenue	33,326	-	33,326
Net Position			
Net investment in capital assets	5,831,539	15,287,476	21,119,015
Restricted, maintenance and improvements - expendable	259,000	825,080	1,084,080
Unrestricted	553,966	1,647,982	2,201,948
Total Net Position	\$ 6,644,505	\$ 17,760,538	\$ 24,405,043

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Operating revenues			
Charges for services	\$ 527,527	\$ 743,805	\$ 1,271,332
Miscellaneous	6,424	(1,754)	4,670
Total Operating revenues	<u>533,951</u>	<u>742,051</u>	<u>1,276,002</u>
Operating expenses			
Personnel services	234,162	185,193	419,355
Operating	194,322	179,868	374,190
Depreciation	<u>152,432</u>	<u>313,094</u>	<u>465,526</u>
Total Operating expenses	<u>580,916</u>	<u>678,155</u>	<u>1,259,071</u>
Operating income (loss)	(46,965)	63,896	16,931
Non-operating revenues (expenses)			
Investment income	280	1,130	1,410
Rental income	8,279	-	8,279
Other income	-	4,415	4,415
Interest expense	<u>(40,179)</u>	<u>(20,029)</u>	<u>(60,208)</u>
Total Non-operating revenues (expenses)	<u>(31,620)</u>	<u>(14,484)</u>	<u>(46,104)</u>
Net income (loss) before contributions and grants	<u>(78,585)</u>	<u>49,412</u>	<u>(29,173)</u>
Capital contributions	475,600	464,000	939,600
Capital grants	<u>-</u>	<u>6,378,586</u>	<u>6,378,586</u>
Change in net position	397,015	6,891,998	7,289,013
Total net position, beginning of year	<u>6,247,490</u>	<u>10,868,540</u>	<u>17,116,030</u>
Total net position, end of year	<u>\$6,644,505</u>	<u>\$ 17,760,538</u>	<u>\$ 24,405,043</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
Cash Flows from Operating Activities			
Cash received from customers	\$ 498,724	\$ 734,041	\$ 1,232,765
Cash payments to suppliers for goods and services	(183,211)	(233,971)	(417,182)
Cash payments to employees for services	(225,178)	(175,798)	(400,976)
Other cash receipts	6,422	-	6,422
Net cash provided by operating activities	<u>96,757</u>	<u>324,272</u>	<u>421,029</u>
Cash Flows from Non-Operating Activities			
Cash received from customers	<u>8,279</u>	<u>4,415</u>	<u>12,694</u>
Net cash provided by non-operating activities	<u>8,279</u>	<u>4,415</u>	<u>12,694</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on bond and loans payable	(114,918)	(82,826)	(197,744)
Proceeds on bond and loans payable	-	3,579,347	3,579,347
Construction of capital assets - current year	-	(9,157,314)	(9,157,314)
Capital purchases	(37,507)	(24,054)	(61,561)
Capital grants and contributions	475,600	5,249,738	5,725,338
Interest paid on capital debt	(40,178)	(57,071)	(97,249)
Net cash provided by (used in) capital and related financing activities	<u>282,997</u>	<u>(492,180)</u>	<u>(209,183)</u>
Cash Flows from Investing Activities			
Investment income	<u>280</u>	<u>1,130</u>	<u>1,410</u>
Net cash provided by investing activities	<u>280</u>	<u>1,130</u>	<u>1,410</u>
Net increase (decrease) in cash and cash equivalents	388,313	(162,363)	225,950
Cash and cash equivalents - beginning of year	<u>412,517</u>	<u>1,604,374</u>	<u>2,016,891</u>
Cash and cash equivalents - end of year	<u>\$ 800,830</u>	<u>\$ 1,442,011</u>	<u>\$ 2,242,841</u>
Cash and cash equivalents:			
Unrestricted	\$ 541,830	\$ 616,931	\$ 1,158,761
Restricted	<u>259,000</u>	<u>825,080</u>	<u>1,084,080</u>
	<u>\$ 800,830</u>	<u>\$ 1,442,011</u>	<u>\$ 2,242,841</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ (46,965)	\$ 63,896	\$ 16,931
Depreciation	152,432	313,094	465,526
Loss on disposition of assets	-	1,754	1,754
Net changes in assets and liabilities:			
Customer accounts receivable	(29,803)	(9,763)	(39,566)
Prepaid expenses	79	96	175
Accounts payable	11,031	(56,164)	(45,133)
Unearned revenue	-	-	-
Accrued liabilities	1,000	1,964	2,964
Accrued payroll and compensated absences	8,983	9,395	18,378
Net cash provided by operating activities	<u>\$ 96,757</u>	<u>\$ 324,272</u>	<u>\$ 421,029</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Emmitsburg was incorporated in 1825 and is currently organized under the provisions of a commission form of government. The financial statements of The Town of Emmitsburg, Maryland (the Town) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 have been considered and there are no agencies or entities which should be presented with the Town.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Town follows GASB 62 in applying GASB guidance to its proprietary activities, which incorporates Financial Accounting Standards Board statements and interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Government-wide and Fund financial statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The statement of net position and the statement of activities display information about the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements include the financial 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 statement of net position presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Town.

TOWN OF EMMITSBURG, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and managerial requirements.

The following is a brief description of the specific funds used by the Town for the year ended June 30, 2014:

Governmental Fund Types

General Fund - This fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund accounts for the normal recurring activities of the Town, (i.e., public safety, parks and recreation, public works and general government activities, etc.). These activities are funded principally by property and income taxes on individuals and businesses, and grants from other governmental units.

Capital Projects Fund - This fund accounts for the purchase, construction or renovation of major general fixed assets over an extended period of time (other than those financed by the Proprietary Funds). While capital outlay accounts are used in each function reported in the General Fund, longer-term projects, those with mixed funding or projects of a larger amount or spanning several fiscal years, are accounted for in this fund.

Proprietary Fund Types

Enterprise Funds - The Water and Sewer Funds account for the activity of the Town's sewage treatment plant, sewage pumping stations and collection systems, and the water distribution system.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in 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. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

Net position is reported as restricted when constraints placed on net position use are externally imposed by grantors or contributors.

TOWN OF EMMITSBURG, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when cash is received and when amounts to be received are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues as available if they are collected within 60 days after year-end.

Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Proprietary funds distinguish operating revenues and expenses from non-operating 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 Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, the Town considers cash on hand, demand deposits, and all highly liquid investments and debt instruments with maturities of six months or less from the date of acquisition to be cash and cash equivalents. Generally, cash resources of the individual funds are combined to form a pool. Investment income earned as a result of pooling is distributed to the appropriate funds based on the average balance of cash and investments of each fund.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid expenses. In governmental funds, reported prepaid expenses are equally offset by non-spendable fund balance amounts, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. For the year ended June 30, 2014, the Town has an allowance for uncollectible accounts of \$1,738 reported in the general fund.

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the statement of net position. Short-term interfund loans are classified as “interfund receivables/payables.”

Commitments and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although it is believed by management that such disallowances will be immaterial.

Capital Assets

Capital assets are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets purchased or acquired are recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation of property and equipment is computed on the straight-line method for financial reporting purposes. Depreciation is provided for over the estimated useful lives of the assets.

Buildings	20 – 50 years
Land improvements	10 – 20 years
Infrastructure	20 – 50 years
Machinery and equipment	5 – 15 years

Budgets and Budgetary Accounting

The budget document is a comprehensive financial plan showing all revenues and expenditures expected for the fiscal year.

The Town follows these procedures in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to May 30th, the Mayor requests the Town Manager and Town Clerk meet with the Board of Commissioners and then prepare their proposed operating budgets for the fiscal year commencing the following July 1.
2. All budget requests are compiled by the Town Manager and Town Clerk and presented to the Mayor for review together with comparative and supporting data.

TOWN OF EMMITSBURG, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Public hearings are advertised and conducted at the Town Hall for taxpayer comments.
4. Prior to May 30th, the Mayor formally presents the budget message to the Board of Commissioners.
5. Prior to June 30th, the budget is legally enacted through the passage of an ordinance.
6. Appropriations lapse at the end of the fiscal year.
7. During the operating year, the Board of Commissioners must approve inter-departmental budget transfers at a regularly scheduled public meeting.

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees are entitled to receive payment for all unused vacation hours and half-time pay for accrued and unused sick and personal hours upon termination. Accumulated vacation, sick, and personal leave is accrued when incurred in the government-wide and proprietary fund financial statements.

Fund Balance

The Town has implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for its governmental funds. Under GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

Non-spendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted fund balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed fund balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the Town's highest level of decision-making authority, the Mayor and Board of Commissioners.

Assigned fund balance – Amounts that are constrained by the Town's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the Board of Commissioners, or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

TOWN OF EMMITSBURG, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned fund balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Restricted net position represents external restrictions by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law or enabling legislation.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

(2) DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments exists when, in the event of the failure of the counterparty to a transaction, a government may be unable to recover the value of investment or collateral securities that are in the possession of an outside party. At year-end, the Town's carrying amount of deposits was \$869,068, the bank balance was \$897,433, and cash on hand was \$450.

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(2) DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

The Town maintains deposits at one financial institution. At June 30, 2014, the Town was fully covered by the Federal Deposit Insurance Corporation and pledged collateral.

The Town had \$3,193,423 invested in the Maryland Local Government Investment Pool (MLGIP) as of June 30, 2014.

The Town's cash and investments as of June 30, 2014, reconciled to the total presented in the Statement of Net Position, are as follows:

	Business-type		Total
	Governmental	Activities	
Cash and cash equivalents:			
Unrestricted	\$ 1,820,100	\$ 1,158,761	\$ 2,978,861
Restricted	-	1,084,080	1,084,080
	<u>\$ 1,820,100</u>	<u>\$ 2,242,841</u>	<u>\$ 4,062,941</u>

	Business-type		Total
	Governmental	Activities	
Cash on hand	\$ 450	\$ -	\$ 450
Deposits in bank	761,871	107,197	869,068
Investment pools (MLGIP)	1,057,779	2,135,644	3,193,423
	<u>\$ 1,820,100</u>	<u>\$ 2,242,841</u>	<u>\$ 4,062,941</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy is not explicit as to how interest rate risk is managed. The interest rate in the MLGIP fluctuates throughout the year. The applicable interest rate at June 30, 2014 was 0.05 %.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation.

The Town shall invest only in the following types of securities, which are authorized by the State:

- Obligations of U.S. governmental agencies
- Fully insured or collateralized certificates of deposit
- Repurchase agreements and reverse repurchase agreements not to exceed 360 days to stated maturity

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(2) DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

- Bankers acceptances with the highest quality letter and numerical rating
- Municipal securities with the highest quality letter and numerical rating
- Money market mutual funds containing securities of U.S. governmental agencies
- Local Government Investment Pool administered by the State Treasurer

The Town's investments have received the following ratings by Standard & Poor's: Maryland Local Government Investment Pool (MLGIP) rated AAAM.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, not applicable to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools or other pooled investments.

(3) CAPITAL ASSETS

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

Governmental Activities:

<u>Governmental Activities:</u>	<u>Balance July 1, 2013</u>	<u>Transfers / Additions</u>	<u>Transfers / Dispositions</u>	<u>Balance June 30, 2014</u>
Capital assets, not depreciated				
Land	\$ 1,164,089	\$ -	\$ -	\$ 1,164,089
Construction in progress	56,830	193,312	(162,734)	87,408
Total capital assets, not depreciated	<u>1,220,919</u>	<u>193,312</u>	<u>(162,734)</u>	<u>1,251,497</u>
Capital assets, depreciated				
Buildings	709,699	6,552	-	716,251
Improvements	624,636	17,365	-	642,001
Infrastructure	4,293,173	100,623	-	4,393,796
Machinery and equipment	536,168	38,194	(17,550)	556,812
Total capital assets, depreciated	6,163,676	162,734	(17,550)	6,308,860
Accumulated depreciation	<u>(3,685,526)</u>	<u>(203,271)</u>	<u>16,575</u>	<u>(3,872,222)</u>
Governmental activities -				
Capital assets, net	<u>\$ 3,699,069</u>	<u>\$ 152,775</u>	<u>\$ (163,709)</u>	<u>\$ 3,688,135</u>

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(3) CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 29,277
Public works – streets	136,327
Parks and recreation	<u>37,667</u>
Total depreciation expense –	<u>\$ 203,271</u>

<u>Business-type activities:</u>	<u>Balance July 1, 2013</u>	<u>Transfers / Additions</u>	<u>Transfers / Dispositions</u>	<u>Balance June 30, 2014</u>
Capital assets, not depreciated				
Land and land improvements	\$ 2,669,550	\$ -	\$ -	\$ 2,669,550
Construction in progress	<u>4,120,365</u>	<u>9,960,354</u>	-	<u>14,080,719</u>
Total capital assets, not depreciated	<u>6,789,915</u>	<u>9,960,354</u>	-	<u>16,750,269</u>
Capital assets, depreciated				
Buildings and improvements	6,876,073	-	-	6,876,073
Infrastructure	10,137,503	6,650	-	10,144,153
Machinery and equipment	<u>164,685</u>	<u>54,911</u>	<u>(35,848)</u>	<u>183,748</u>
Total capital assets, depreciated	<u>17,178,261</u>	<u>61,561</u>	<u>(35,848)</u>	<u>17,203,974</u>
Accumulated depreciation	<u>(6,249,236)</u>	<u>(465,526)</u>	<u>34,094</u>	<u>(6,680,668)</u>
Business-type activities -				
Capital assets, net	<u>\$17,718,940</u>	<u>\$9,556,389</u>	<u>\$ (1,754)</u>	<u>\$ 27,273,575</u>

Depreciation expense was charged to functions/programs as follows:

Business-type activities	
Water	\$152,432
Sewer	<u>313,094</u>
Total depreciation expense	<u>\$465,526</u>

(4) UNEARNED REVENUE

Unearned revenue arises in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenue also arises, in both governmental and proprietary funds, when resources are received by the government before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) DEBT OBLIGATIONS

Debt outstanding at June 30, 2014 is as follows:

Purpose	Rate	Amount
Wastewater Plant Improvement Bonds of 1988; Community Development Administration; Due 2018; Annual principal varies plus interest.	4.75%	\$ 258,000
Infrastructure Financing Bonds 2001 Series A; Maryland Department of Housing and Community Development; Due 2021; Annual principal and interest of approximately \$15,200.	4.77%	89,300
Drinking Water State Revolving Fund; Maryland Water Quality Financing Administration; Due 2020; Annual principal and interest of approximately \$45,500.	1.20%	252,952
Drinking Water State Revolving Fund; Maryland Water Quality Financing Administration; Due 2024; Annual principal and interest of approximately \$23,200.	1.20%	207,377
Drinking Water State Revolving Fund; Maryland Water Quality Financing Administration; Due 2021; Annual principal and interest of approximately \$53,700.	2.40%	326,374
Drinking Water State Revolving Fund; Maryland Water Quality Financing Administration; Due 2026; Annual principal and interest of approximately \$26,579.	1.10%	283,030
General Obligation Bond, Series 2009; Due 2029; Semi-annual interest payments with principal amounts due annually.	3.65%	536,755
Woodsboro Bank loan; Due 2016; Monthly principal and interest of approximately \$1,504.	4.00%	223,666
General Obligation Bond Anticipation Note, Series 2012; Interim financing for WWTP, principal -\$5,419,000, due 2015; interest quarterly, beginning October 1, 2012.	1.75%	<u>4,341,675</u>
Total Debt Obligations		<u>\$ 6,519,129</u>

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) DEBT OBLIGATIONS (CONTINUED)

Changes in Non-Current Liabilities

During the year ended June 30, 2014, the following changes in long-term obligations occurred:

	July 1, 2013	Additions	Reductions	June 30, 2014	Due within one year
1988 CDA	\$ 311,000	\$ -	\$ (53,000)	\$ 258,000	\$ 57,000
2000 MDE	368,731	-	(42,357)	326,374	43,374
2001 CDA	99,600	-	(10,300)	89,300	10,800
2004 MDE	226,786	-	(19,409)	207,377	19,642
2004 MDE	293,378	-	(40,426)	252,952	40,911
2007 MDE	304,981	-	(21,951)	283,030	22,193
Woodsboro Bank	232,457	-	(8,791)	223,666	9,260
2009 General Obligation Bond	567,955	-	(31,200)	536,755	44,090
PNC ENR Interim Loan	762,328	3,579,347	-	4,341,675	-
Total	<u>\$ 3,167,216</u>	<u>\$ 3,579,347</u>	<u>\$ (227,434)</u>	<u>\$ 6,519,129</u>	<u>\$ 247,271</u>

At June 30, 2014, the debt obligations are recorded as follows:

Governmental activities:	\$ 364,566
Business-type activities:	
Water Fund	1,353,536
Sewer Fund	<u>4,801,027</u>
Total long-term debt obligations	<u>\$ 6,519,129</u>

The Maryland Community Development Administration (CDA) issued its 1998 Series B and C Bonds to refund six series of Infrastructure Financing Bonds from 1988 through 1992. The Town's Wastewater Plant Improvement Bonds of 1988 were refunded in this transaction. The maturity of the loan and the principal payments will remain the same as the original issue. The interest rate was reduced to 4.75% and will result in significant savings for the Town until the maturity date in 2018.

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(5) DEBT OBLIGATIONS (CONTINUED)

Debt service requirements are as follows:

	<u>Principal</u>	<u>Interest & Fees</u>	<u>Total</u>
2015	247,271	70,354	317,625
2016	4,598,459	62,765	4,661,224
2017	461,340	49,942	511,282
2018	266,209	38,311	304,521
2019	198,743	28,660	227,403
2020-2024	682,099	65,187	747,286
2025-2029	64,899	3,426	68,325

Conduit Debt

In fiscal year 2008, the Town approved the issuance of Maryland Economic Development Bonds, not to exceed \$10 million, to provide financial assistance to Mount Saint Mary's University for renovations and improvements to the University.

In fiscal year 2009, the Town approved the issuance of Maryland Economic Development Bonds, not to exceed \$10 million, to provide financial assistance to Mount Saint Mary's University for renovations and improvements to the University.

In December 2009, the Town issued \$1,250,000 of Town of Emmitsburg Educational Facilities Revenue Bonds, Series 2009, for the purpose of lending the proceeds to Mount Saint Mary's University to finance the renovation and improvements to the Terrace Student Housing Complex. The project is being funded by donor contributions and the Series 2009 Bond proceeds will bridge the time between costs of the projects and payments received from pledges.

The bonds are to be paid solely from the revenue derived from payments made to the Town pursuant to the terms and provisions of the loan agreement. As of June 30, 2014, the conduit debt obligations outstanding were \$19,109,854 and 1,250,000 respectively.

The Town is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Interest expense

For the year ended June 30, 2014 total interest costs were \$115,171 and reported as follows: interest expense of \$17,919 for governmental activities, \$60,208 for business-type activities, and \$37,044 of interest was capitalized for business-type activities. Cash paid for interest for business-type activities was \$97,252.

TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(6) EMPLOYEE BENEFITS

Cost-sharing Multiple Employer Pension Plan:

Plan Description

Effective July 1, 2006, all full-time employees of the Town are provided retirement benefits through the Maryland State Retirement and Pension's contributory pension system ("Pension System"). The Pension System is a defined-benefit plan and multiple employer system. The plan involves state-wide participation of employees from numerous other state and local governmental units. The system is administered by the Maryland State Retirement Agency pursuant to the Annotated Code of Maryland.

Under the Pension System, members may retire after 30 years of service or the attainment of age 62 with five years of service, age 63 with four years of service, age 64 with three years of service or age 65 or over and two years of service.

The State Retirement and Pension System of Maryland does not prepare or maintain separate actuarial reports for the participating governmental units. The Maryland State Retirement and Pension System issues a comprehensive annual financial report. The report can be obtained from the agency's offices at:

Maryland State Retirement and Pension Systems
120 East Baltimore Street
Baltimore, Maryland 21202

Funding policy

Obligations to contribute to the plans were established under Titles 22 and 23 of the State Personnel and Pensions Article of the Maryland Code. Members of the Pension System contribute 2% of their gross employee compensation. The total contributions from the employees were as follows for the fiscal years ended June 30:

2012	\$13,505
2013	13,388
2014	14,087

The Town contributed the following payments to the System, which were equal to 100% of the required contributions for the years ended June 30:

2012	\$61,513
2013	51,651
2014	59,732

TOWN OF EMMITSBURG, MARYLAND

NOTES TO THE FINANCIAL STATEMENTS

(6) EMPLOYEE BENEFITS (CONTINUED)

Deferred compensation plan

The Town offers a deferred compensation plan administered by the International Town/County Management Associates (ICMA) Retirement Corporation to all full-time employees under the provisions of Internal Revenue Code Section 457. Under the terms of a 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by ICMA are held in trust for the exclusive benefit of the participants and their beneficiaries, and accordingly, are not included in the Town's financial statements.

(7) GRANTS FROM GOVERNMENTAL UNITS

Federal and state governmental units represent an important source of supplementary funding used to finance construction, maintenance, employment programs, and other activities beneficial to the community. The grants received by the Town specify the purpose for which the grant funds are to be used, and such grants are subject to audit by the granting agency or its representative if Federal expenditures for the fiscal year exceed \$500,000. The Town's federal grant expenditures were more than \$500,000; therefore, they are subject to the Single Audit Act for fiscal year 2014.

(8) PROPERTY TAXES

The Town's property taxes are levied each July 1 at rates enacted by the Board of Commissioners on the total assessed value as determined by the Maryland State Department of Assessments and Taxation.

Property taxes become delinquent on October 1. Interest accrues at 1% monthly for delinquent property taxes. Tax liens on real property are sold at public auction the second Monday in May on taxes delinquent since October 1 of the current fiscal year. Total assessable base on which levies were made for the year ended June 30, 2014 was \$169,241,303 and the property tax rate was \$0.36 per \$100 of assessed value.

(9) RESTRICTED NET POSITION

The Town has instituted through a local ordinance a surcharge on water and sewer connections for the purpose of funding necessary repairs and maintenance and improvements to the Town's Water and Sewer system. In addition, the Mayor and Commissioners set-aside funds for specific projects. As of June 30, 2014, the total amount restricted is as follows:

Surcharges for improvements – Water Fund	<u>\$259,000</u>
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TOWN OF EMMITSBURG, MARYLAND
NOTES TO THE FINANCIAL STATEMENTS

(9) RESTRICTED NET POSITION (CONTINUED)

Surcharges for improvements – Sewer Fund	\$745,500
Lagoon improvements	60,000
Other	<u>19,580</u>
	<u>\$825,080</u>

Net position restricted by enabling legislation represents accumulated net position attributed to revenue sources, such as taxes or fees, which are restricted for specific purposes. All new residential dwelling units are assessed a one-time fee of \$1,200 per residential dwelling unit. This impact fee is to be utilized for the acquisition, development, and rehabilitation of municipal roads, sidewalks, streets, lights, and corresponding electric service, park and recreational areas. Impact fees collected are recorded in the Capital Projects Fund. A portion of the impact fees collected is to be committed to the upgrade of the local emergency warning system and are included in restricted net position in the government-wide statement of net position.

Impact fees	<u>\$ 9,800</u>
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(10) 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's general liability risks are financed through the Town's participation in the Maryland Local Government Insurance Trust (MLGIT). The Town pays an annual premium to MLGIT for its general insurance coverage. The Town has coverage of \$1,000,000 for each occurrence. The annual aggregate limit is \$2,000,000 and is the most the Trust will pay under the Town's agreement. The Town continues to carry commercial insurance for employee health and accident insurance and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

(11) SUBSEQUENT EVENTS

Subsequent events are defined as events or transactions that occur after the Statement of Net Position date through the date that the financial statements are available to be issued. The Town performed an evaluation as of October 29, 2014, the date the financial statements were available to be issued and determined that there are no subsequent events requiring disclosure.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Local property taxes				
Real property	\$ 607,157	\$ 607,157	\$ 610,270	\$ 3,113
Personal property	50,591	50,591	39,911	(10,680)
Interest	7,736	7,736	6,529	(1,207)
Less discounts	<u>(7,118)</u>	<u>(7,118)</u>	<u>(7,749)</u>	<u>(631)</u>
Net local property taxes	<u>658,366</u>	<u>658,366</u>	<u>648,961</u>	<u>(9,405)</u>
Local income taxes	<u>209,283</u>	<u>209,283</u>	<u>217,385</u>	<u>8,102</u>
Other local taxes				
Admissions and amusement taxes	6,965	6,965	6,739	(226)
Public utility taxes	<u>24,000</u>	<u>24,000</u>	<u>26,195</u>	<u>2,195</u>
Total other local taxes	<u>30,965</u>	<u>30,965</u>	<u>32,934</u>	<u>1,969</u>
Licenses and permits				
Alcoholic beverages	4,855	4,855	204	(4,651)
Trader's licenses	5,159	5,159	5,204	45
Cable franchise fees	<u>27,000</u>	<u>27,000</u>	<u>31,220</u>	<u>4,220</u>
Total licenses and permits	<u>37,014</u>	<u>37,014</u>	<u>36,628</u>	<u>(386)</u>
Intergovernmental revenues				
State Aid for Police Protection	12,659	12,659	16,305	3,646
County - tax equity	372,491	372,491	372,491	-
Highway users	25,370	25,370	24,216	(1,154)
Other	<u>-</u>	<u>-</u>	<u>129,988</u>	<u>129,988</u>
Total intergovernmental revenues	<u>410,520</u>	<u>410,520</u>	<u>543,000</u>	<u>132,480</u>
Service charges				
Garbage and tipping fees	186,865	186,865	176,781	(10,084)
Zoning permits	6,075	6,075	6,870	795
Parking meter receipts	18,417	18,417	15,563	(2,854)
Swimming pool	19,298	19,298	21,594	2,296
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total service charges	<u>230,655</u>	<u>230,655</u>	<u>220,808</u>	<u>(9,848)</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET TO ACTUAL

GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Fines and forfeitures				
Parking fines	\$ 7,020	\$ 7,020	\$ 4,950	\$ (2,070)
Miscellaneous revenues				
Interest income	3,264	3,264	1,379	(1,885)
Rental income	22,639	22,639	21,383	(1,256)
Police protection reimbursement	-	-	-	-
Other	7,650	7,650	8,104	454
Total miscellaneous revenues	<u>33,553</u>	<u>33,553</u>	<u>30,866</u>	<u>(2,687)</u>
Budgeted Usage of Fund Balance	-	-	-	-
Total revenues	<u>\$ 1,617,376</u>	<u>\$ 1,617,376</u>	<u>\$ 1,735,532</u>	<u>\$ 118,155</u>
General Government				
Legislative				
Salaries	\$ 47,782	\$ 47,782	\$ 55,868	\$ (8,086)
Fringe benefits	7,675	7,675	5,915	1,760
Total salaries and fringe benefits	<u>55,457</u>	<u>55,457</u>	<u>61,783</u>	<u>(6,326)</u>
Donations	1,500	1,500	115	1,385
Legal	4,500	4,500	3,952	548
Other operating	44,959	44,959	32,633	12,326
Total operations	<u>50,959</u>	<u>50,959</u>	<u>36,700</u>	<u>14,259</u>
Capital Outlay	1,500	1,500	1,032	468
Total Legislative	<u>107,916</u>	<u>107,916</u>	<u>99,515</u>	<u>8,401</u>
Planning and Zoning				
Salaries	109,447	109,447	103,559	5,888
Fringe benefits	21,799	21,799	23,025	(1,226)
Total salaries and fringe benefits	<u>131,246</u>	<u>131,246</u>	<u>126,585</u>	<u>4,661</u>
Operations				
Contractual	1,000	1,000	18,430	(17,430)
Other operating	12,640	12,640	13,099	(459)
Total operations	<u>13,640</u>	<u>13,640</u>	<u>31,529</u>	<u>(17,889)</u>
Capital outlay	2,000	2,000	-	2,000
Total Planning and Zoning	<u>146,886</u>	<u>146,886</u>	<u>158,114</u>	<u>(11,228)</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Financial Administration				
Salaries	\$ 62,331	\$ 62,331	\$ 100,004	\$ (37,673)
Fringe benefits	36,530	36,530	40,429	(3,899)
Total salaries and fringe benefits	<u>98,861</u>	<u>98,861</u>	<u>140,433</u>	<u>(41,572)</u>
Operations				
Other operating	22,730	22,730	17,418	5,312
Accounting and auditing	15,000	15,000	13,439	1,561
Total operations	<u>37,730</u>	<u>37,730</u>	<u>30,857</u>	<u>6,873</u>
Total Financial Administration	<u>136,591</u>	<u>136,591</u>	<u>171,290</u>	<u>(34,699)</u>
General Services				
Salaries	55,723	55,723	44,338	11,385
Fringe benefits	25,949	25,949	24,638	1,311
Total salaries and fringe benefits	<u>81,672</u>	<u>81,672</u>	<u>68,976</u>	<u>12,696</u>
Operations				
Repairs and Maintenance	29,376	29,376	34,136	(4,760)
Other operating costs	15,958	15,958	13,744	2,214
Total operations	<u>45,334</u>	<u>45,334</u>	<u>47,880</u>	<u>(2,546)</u>
Capital outlay	1,000	1,000	-	1,000
Total General Services	<u>128,006</u>	<u>128,006</u>	<u>116,856</u>	<u>11,150</u>
Total General Government	<u>\$ 519,399</u>	<u>\$ 519,399</u>	<u>\$ 545,775</u>	<u>\$ (26,376)</u>
Public Safety				
Police, ambulance and fire services				
Police protection	\$ 246,472	\$ 246,472	\$ 208,659	\$ 37,813
Other public safety expenses	6,495	6,495	8,477	(1,982)
Fire and rescue donations	6,000	6,000	3,000	3,000
Total operations	<u>258,967</u>	<u>258,967</u>	<u>220,136</u>	<u>38,831</u>
Capital outlay	2,000	2,000	894	1,106
Total Public Safety	<u>\$ 260,967</u>	<u>\$ 260,967</u>	<u>\$ 221,030</u>	<u>\$ 39,937</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Public Works				
Highways and Streets				
Salaries				
Regular	\$ 94,638	\$ 94,638	\$ 128,780	\$ (34,142)
Overtime	8,050	8,050	7,400	650
Fringe benefits	65,091	65,091	57,296	7,795
Total salaries and fringe benefits	<u>167,779</u>	<u>167,779</u>	<u>193,476</u>	<u>(25,697)</u>
Operations				
Utilities	43,807	43,807	30,533	13,274
Vehicle expense	18,432	18,432	24,576	(6,144)
Contractual	16,143	16,143	18,172	(2,029)
Other operating	45,160	45,160	16,952	28,208
Total operations	<u>123,542</u>	<u>123,542</u>	<u>90,233</u>	<u>33,308</u>
Capital outlay	-	-	-	-
Total Highways and Streets	<u>291,321</u>	<u>291,321</u>	<u>283,709</u>	<u>7,612</u>
Refuse				
Salaries				
Regular	2,820	2,820	2,588	232
Overtime	5,760	5,760	2,912	2,848
Total salaries and fringe benefits	<u>8,580</u>	<u>8,580</u>	<u>5,500</u>	<u>3,080</u>
Contractual	135,100	135,100	107,253	27,847
Other operating costs	2,278	2,278	-	2,278
Total Refuse	<u>145,958</u>	<u>145,958</u>	<u>112,753</u>	<u>33,205</u>
Total Public Works	<u>\$ 437,279</u>	<u>\$ 437,279</u>	<u>\$ 396,462</u>	<u>\$ 40,817</u>
Recreation and Culture				
Park and swimming pool				
Salaries				
Regular	\$ 63,443	\$ 63,443	\$ 49,455	\$ 13,988
Overtime	-	-	-	-
Fringe benefits	25,605	25,605	36,567	(10,962)
Total salaries and fringe benefits	<u>89,048</u>	<u>89,048</u>	<u>86,022</u>	<u>3,026</u>

The accompanying notes are an integral part of this statement.

TOWN OF EMMITSBURG, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND

For the year ended June 30, 2014	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Operations				
Pool contract	50,801	50,801	34,257	16,544
Other operating	40,272	40,272	31,612	8,660
Total operations	<u>91,073</u>	<u>91,073</u>	<u>65,869</u>	<u>25,204</u>
Capital Outlay	<u>6,000</u>	<u>6,000</u>	<u>7,935</u>	<u>(1,935)</u>
Total Recreation and Culture	<u>\$ 186,121</u>	<u>\$ 186,121</u>	<u>\$ 159,826</u>	<u>\$ 26,295</u>
Debt Service				
Principal payments	\$ 30,027	\$ 30,027	\$ 29,691	\$ 336
Interest payments	17,583	17,583	17,919	(336)
Total Debt Service	<u>\$ 47,610</u>	<u>\$ 47,610</u>	<u>\$ 47,610</u>	<u>\$ -</u>
Total Expenditures	<u>\$ 1,451,376</u>	<u>\$ 1,451,376</u>	<u>\$ 1,370,703</u>	<u>\$ 80,673</u>
Excess of Revenues over Expenditures	<u>\$ 166,000</u>	<u>\$ 166,000</u>	<u>\$ 364,829</u>	<u>\$ 198,829</u>
Other Financing Sources (Uses)				
Transfer out to Capital Projects Fund	<u>(166,000)</u>	<u>(166,000)</u>	<u>(275,413)</u>	<u>(109,413)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,416</u>	<u>\$ 89,416</u>

The accompanying notes are an integral part of this statement.



Draper & McGinley, P.A.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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 Board of Commissioners
Town of Emmitsburg, 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, the financial statements of the governmental activities, the business-type activities and each major fund of Town of Emmitsburg, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Emmitsburg, Maryland's basic financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Emmitsburg, Maryland'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 Town of Emmitsburg, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Emmitsburg, Maryland's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Emmitsburg, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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.

Frederick, Maryland
October 29, 2014

Drapen & McGinley P.A.



Draper & McGinley, P.A.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mayor and Board of Commissioners
Town of Emmitsburg, Maryland

Report on Compliance for Each Major Federal Program

We have audited Town of Emmitsburg, Maryland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Town of Emmitsburg, Maryland's major federal programs for the year ended June 30, 2014. Town of Emmitsburg, Maryland's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Emmitsburg, Maryland's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Emmitsburg, Maryland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Emmitsburg, Maryland's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of Emmitsburg, Maryland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Town of Emmitsburg, Maryland, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Emmitsburg, Maryland's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Emmitsburg, Maryland's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Frederick, Maryland
October 29, 2014

Drapen & McGunley, P.A.

Town of Emmitsburg, Maryland
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

<u>Federal/State Grantor</u>	<u>Federal CFDA Number</u>	<u>Grant/Loan Number</u>	<u>Grant Period</u>	<u>Federal Expenditures</u>
United States Department of Agriculture Rural Utilities Service Direct Award				
Water and Waste Disposal Systems for Rural Communities Wastewater Treatment Plant ENR Upgrade* - ARRA	10.781	92-01	n/a	\$ 3,297,139
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 3,297,139</u>

*Total amount of loan commitment is \$5,419,000.

The accompanying notes are an integral part of this schedule.

TOWN OF EMMITSBURG, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

(1) BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes all Federal grants of the Town which had financial activity during the year ended June 30, 2014 or (accrued)/deferred grant revenue at June 30, 2013. This schedule has been prepared in accordance with generally accepted accounting principles.

The financial statements of the Town are presented in accordance with generally accepted accounting principles. Expenditures related to the construction of capital assets are reported as construction in progress on the Statement of Net Position. For government grant reporting, these costs are accounted for as expenditures.

TOWN OF EMMITSBURG, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? yes X no
- Significant deficiencies that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? yes X no
- Significant deficiencies that are not considered to be material weaknesses? yes X no

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.781	Water and Waste Disposal Systems for Rural Communities - ARRA

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? X yes no

**TOWN OF EMMITSBURG, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

TOWN OF EMMITSBURG, MARYLAND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2014

U.S. DEPARTMENT OF AGRICULTURE
Water and Waste Disposal Systems for Rural Communities, CFDA # 10.781

Finding 13-2: Procurement, Suspension and Debarment

Condition: During fiscal year 2013, the Organization paid several vendors in excess of \$25,000. For two of those vendors, the required verification was not performed prior to disbursement of funds.

Recommendation: The Organization should implement a process whereby one of the following is performed prior to the disbursement of funds for all contracts expected to equal or exceed \$25,000:

- Check the *Excluded Parties List System* to assure that the vendor is not listed;
- Collect a certification from the vendor that he/she has not been suspended or debarred; or
- Add a clause or condition to the contract confirming that the vendor has not been suspended or debarred.

The process must be applied consistently and performed timely to ensure that all applicable vendors are verified.

Response: Staff is aware of the procedure and has checked for suspension and debarment and documented such for several other contractors related to this project. Staff believes it was an oversight and will take measures to ensure suspension and debarment is checked according to policy.

Status: Staff has implemented policies to address this condition. Recently, September 2014, vendors were cleared with the appropriate checks. The Town Accountant will work the Town Clerk to monitor the effected vendors in a timely fashion.