Audited Financial Statements

June 30, 2014

Burgess and Commissioners of Walkersville, MD

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Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Burgess and Commissioners of Walkersville, MD
Walkersville, 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 Burgess and Commissioners of Walkersville, MD (Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Burgess and Commissioners of Walkersville, MD'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. 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 Burgess and Commissioners of Walkersville, MD as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 18 and 47 through 49 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 Burgess and Commissioners of Walkersville, MD's basic financial statements. The budgetary comparison information for the water fund on page 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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The water fund budgetary comparison statement 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.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
November 12, 2014

The management of the Burgess and Commissioners of Walkersville, MD (Town of Walkersville) offers the following narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2014. We provide this information in the hopes that a citizen will invest the time to read and understand their Town's financial operations, particularly if they are inclined to discuss or make assertions regarding the financial statements. The basic financial statements are comprised of the government-wide financial statements, fund financial statements, and notes to financial statements. We encourage readers to consider the information presented here in conjunction with additional information provided within the statements to further enhance their understanding of the Town's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Walkersville exceeded its liabilities at the close of June 30, 2014 by $18,664,298 *(net position)*. Of this amount, $7,564,185 *(unrestricted net position)* may be used to meet the government's ongoing obligations to citizens and creditors.

- The Town's total net position increased by $ 679,943 and the Town increased its cash and equivalents by $841,410. The General Fund increased cash and equivalents by $1,121,321, while the Water Fund decreased by $279,911.

- The General Fund reflected revenues over expenditures in the amount of $992,802 and the Water Fund reflected a positive change in net position in the amount of $31,296.

- As of June 30, 2014, the Town of Walkersville's governmental fund reported ending fund balances of $6,019,219, an increase of $992,802 in comparison with the prior year, a reflection of the Town's continuing fiscal strength.

- The Town's business-type activities generated income from operations in the amount of $30,342. Operating revenues continue to decrease in the Water Fund, this year by $ 12,427, or 2.3% to $985,172. At the same time, operating expenses increased by $11,064 or 1.2%. Charges for Services (Water Usage fees) were down $1,461, a .2% decrease. All outstanding tap fees have now been recognized as revenue in the Water Fund. An annual 1% increase to water billing tiers has been adopted. To date this has not been able to sustain the ever increasing expense of operating the water plant.

- The Town continues to be debt free, but plans are in process to build a new water plant. While the Town plans to try to self-finance the lion's share of the project, it may be necessary to fund some of the costs by outside borrowing.

- The Town continues to hold a second mortgage note on "Walkers Overlook".

- Plant, property, and equipment of the General Fund totaled $14,527,330. A net increase of $30,775 of infrastructure and property was recognized. There was a corresponding net increase in accumulated depreciation of $ 362,548 on these assets. Net capital assets used in governmental activities of the Town decreased by $331,776 to a total of $7,270,383.

- The General Fund did not have to budget funds to be spent from prior year's reserves. The Town plans for some major paving projects and other capital expenditures were not completed due to some scheduling issues, budgeted in the amount of $754,557, with actual capital expenditures only in the amount of $30,775. The General Fund revenues were $67,587 more than expected for the

year. Expenditures were kept within conservative spending limits, coming in way under-budget by $925,215. The Town continues to operate conservatively, managing its resources responsibly.

- The Burgess and Commissioners adopted a 15.0¢ tax rate for FY 2014, even though the rate needed to maintain constant revenue was 17.02¢. This rate generated revenue in the amount of $819,740, giving Walkersville taxpayers $105,287 in tax relief. The Burgess and Commissioners strive to efficiently maintain and manage the operations of the Town with one of the lowest tax rates in the State of Maryland.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the Burgess & Commissioners of Walkersville, MD's basic financial statements. The Town's basic financial statements comprise three 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 a typical interested citizen with a broad overview of the Burgess & Commissioners of Walkersville, MD's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Burgess & Commissioners of Walkersville, MD's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Burgess & Commissioners of Walkersville, MD 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 related 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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Burgess & Commissioners of Walkersville, MD 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 Burgess & Commissioners of Walkersville, MD include General government, Public safety, Public works, Waste collection and disposal, Recreation and culture, and Non-departmental. The business-type activity of the Burgess & Commissioners of Walkersville, MD consists of a Water treatment and distribution operation. The government-wide financial statements can be found on pages 19-20 of this report.

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 of objectives. The Burgess & Commissioners of Walkersville, MD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Burgess & Commissioners of Walkersville, MD can

be divided into two 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 governmental funds and governmental activities.

  The Town of Walkersville maintains one governmental fund. The information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the major fund.

  The Town of Walkersville adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

  The basic governmental fund financial statements can be found on pages 21-24 of this report.

- Proprietary funds. The Town of Walkersville maintains one proprietary fund, an Enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Walkersville uses the enterprise fund to account for its Water Treatment and Distribution Company.

  Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water Treatment and Distribution Company, which is a major fund of the Town of Walkersville.

  The basic proprietary fund financial statements can be found on pages 25-28 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-46 of this report.

Required supplementary information can be found on pages 47-49.

Other supplementary information can be found on page 50.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Net position may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Government-wide Statement of Net Position:

Town of Walkersville
Net Position Summary

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 6,747,259	$ 5,648,258	$ 1,257,892	$ 1,519,015	$ 8,005,151	$ 7,167,273
Capital assets	7,270,383	7,602,159	3,829,730	3,580,213	11,100,113	11,182,372
Total Assets	$ 14,017,642	$ 13,250,417	$ 5,087,622	$ 5,099,228	$ 19,105,264	$18,349,645
Long-term liabilities	$ -	$ -	$ -	$ -	$ -	$ -
Other liabilities	348,274	229,696	92,692	135,594	440,966	365,290
Total Liabilities	$ 348,274	$ 229,696	$ 92,692	$ 135,594	$ 440,966	$ 365,290
Net Position						
Invested in capital assets, net of related debt	$ 7,270,383	$ 7,602,159	$ 3,829,730	$ 3,580,213	$ 11,100,113	$11,182,372
Unrestricted	6,398,985	5,418,562	1,165,200	1,383,421	7,564,185	6,801,983
Total Net Position	$13,669,368	$13,020,721	$ 4,994,930	$ 4,963,634	$ 18,664,298	$17,984,355

The Town of Walkersville's assets exceeded its liabilities by $17,984,355 at the close of the June 30, 2013 fiscal year, and by $18,664,298 at the close of June 30, 2014, an increase of $679,943 (3.8%). Total assets of $18,349,645 at June 30, 2013 increased to $19,105,264 by June 30, 2014, an increase of $755,619 (4.1%). The increase in net position consists of a decrease of $82,259 in capital assets and a $762,202 increase in unrestricted net position.

The largest portion of the Town of Walkersville's net position $11,100,113 (59.5%), reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town of Walkersville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Historically, infrastructure has not been included in capital asset reporting for governmental activities. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported. The Town has chosen to report all of its infrastructure assets with the implementation of GASB Statement No. 34 for the year ending June 30, 2004 and all future years, including certain developer constructed assets whose value was determined by using market prices for the year of construction.

Additionally, the Town must elect to either 1) depreciate these assets over their estimated useful life, or 2) develop a system of asset management designed to maintain their condition perpetually and to report on their condition within the financial statements. The Town has elected the first method and will use the depreciation method on infrastructure systems reporting.

Of the remaining Town assets, $7,385,490 is accounted for in cash, cash equivalents, and pooled investments, $585,355 in receivables including a mortgage receivable in the amount of $364,533, and $34,306 in inventory.

At June 30, 2014, the Town continues to be debt free. Included in the Total Liabilities of $440,966, there was $308,767 in accounts payable, deposits of $54,936 for amounts held in escrow for various projects, $62,998 for staff accumulated leave and tax withholdings, and $14,265 in deferred revenue.

At June 30, 2013 and 2014, the Town had positive balances in all categories of net position, for the government as a whole, and for governmental activities.

Statement of Activities – Changes in Net Position

The following schedule summarizes revenues and expenses for the current fiscal year:

Town of Walkersville
Changes in Net Position
Government Wide

	Governmental Activities		Business-type Activities		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Program Revenues						
Charges for services, fees, fines	$ 25,536	$ 18,096	$ 985,172	$997,599	$1,010,708	$1,015,695
Operating grants and contributions	43,449	28,804	-	-	43,449	28,804
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	1,146,426	1,239,113	-	-	1,146,426	1,239,113
Other state and local taxes	1,630,469	1,501,594	-	-	1,630,469	1,501,594
Other	189,097	172,575	954	1,980	190,051	174,555
Total Revenues	$ 3,034,977	$2,960,182	$ 986,126	$ 999,579	$ 4,021,103	$ 3,959,761
Expenses						
General government	$ 484,088	$ 435,272	$ -	$ -	$ 484,088	$ 435,272
Public safety	543,788	458,167	-	-	543,788	458,167
Public works	719,458	665,649	-	-	719,458	665,649
Waste collection and disposal	241,412	244,063	-	-	241,412	244,063
Recreation and culture	164,897	166,507	-	-	164,897	166,507
Non-departmental	232,687	273,965	-	-	232,687	273,965
Water utility services	-	-	954,830	943,766	954,830	943,766
Total Expenses	$ 2,386,330	$2,243,623	$ 954,830	$ 943,766	$ 3,341,160	$ 3,187,389
Change in Net Position	$ 648,647	$ 716,559	$ 31,296	$ 55,813	$ 679,943	$ 772,372
Extraordinary item-impairment of investment in real estate	-	-	-	-	-	-
Net position-beginning	13,020,721	12,304,162	4,963,634	4,907,821	17,984,355	17,211,983
Net position-ending	$13,669,368	$13,020,721	$4,994,930	$4,963,634	$18,664,298	$17,984,355

Total revenues for the Town of Walkersville were $4,021,103 for the year ended June 30, 2014, up $61,342 (1.5%) from FY 2013. This moderate increase will be explained in detail later in this discussion. Governmental activities provided $3,034,977 and business-type activities provided $986,126, primarily from charges for water services.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town of Walkersville uses fund accounting to demonstrate compliance with municipal legal requirements. The following is a financial analysis of the Town's governmental and proprietary funds:

Governmental Funds Revenue and Expense Analysis

The general governmental functions are contained in the General Fund. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. On June 30, 2014, the unassigned fund balance of the General Fund was $5,260,445.

Town of Walkersville
Revenues Classified by Source
Governmental Funds

	Amount		Percent of Total	
	2014	2013	2014	2013
Revenues				
Local property taxes and interest	$ 1,146,770	$ 1,238,955	37.63%	34.55%
Licenses and permits	17,395	11,433	.57%	.32%
Grants and shared taxes	1,665,991	1,522,531	54.67%	42.46%
Other revenue	217,203	812,639	7.13%	22.67%
Total Revenues	$ 3,047,359	$ 3,585,558	100.00%	100.00%

The following provides an explanation of changes in revenues by source over the prior year.

- **Local property taxes and interest** – This consists of real and personal property tax revenues and the penalties and interest thereon. Gross real property tax revenues were $819,740, down $105,287 (11.4%) from last year, reflecting the Burgess & Commissioners' adoption of a lower tax rate (15.0¢ per $100 of assessed value vs. the previous year's 17.0¢) for FY 2014. This reduction was planned by the Commissioners to provide tax relief to Walkersville taxpayers. Gross business personal property tax revenue increased by $14,652 (4.8%) to $318,055. Personal property taxes are assessed based on taxpayer-provided information. The timing and amounts of reportable inventories affect the revenues from personal property assessment returns, so it is impossible to explain or predict the changes. However, perhaps some strengthening in the economy is responsible for this minor increase. Penalties and interest category was down by $1,550 to $ 8,975, consistent with decrease in real property taxes.

- **Licenses and permits** – This previously consisted of Frederick County liquor license revenue, Traders licenses, and Planning and Zoning licensing fees. Senate Bill 321 took effect July 1, 2013 and took the alcoholic beverage license fee revenue in Frederick County away from the municipalities. Despite liquor license revenue being $ 0, the total revenue in this category is up this year, overall by $5,962 to $17,395. The increase of 52.1% breaks down between the categories as follows: Trader license revenue was up by $1,693, a 35.2% increase from last year, Planning & Zoning fees increased $5,904, up to $10,889, a 118.4% increase from last year's $4,985. Liquor

license revenue in the amount of $0 is down by $1,635 or (100.0%), and will remain at $0 forevermore.

- **Grants and shared taxes –** This category includes Admissions and Amusement tax, Highway taxes, Police Protection grant, Program Open Space, Income taxes, Grant in lieu of property taxes, and Tax Equity program from Frederick County. Admissions and Amusement tax is down by $1,942, a 4.1% decrease compared to last year's $47,571. The State of Maryland remitted a special payment to the Town in the amount of $113,438, which, combined with the regular allotment of Highway User Revenue of $49,143 puts the category $115,200 above last year, or 243.1%. The State hoarding of the Transportation fund gasoline taxes continues to be a source of frustration. Without the special payment, the increase in Highway User revenue would have been $1,762 or 3.7%. The Grant for Police Protection increased to $30,892, a $10,985 increase, or 55.2%. This was the first increase in four years, and was supposed to be $30,961. During the final quarter of the year, the GOCCP (Governor's Office of Crime Control & Prevention) found the time to reevaluate our police expenditures and cut the 4th quarter payment by $69 or .2% of the total grant. Program Open Space income is up $3,600 as one of the four approved Town projects in the amount of $4,000 (sandpit volleyball) was completed, and reimbursed 90% by the grant. Income tax revenue was fairly steady but decreased to $720,356, a $1,276 decrease of .2%. The Grant in lieu of property taxes remains the same every year at $1,030. Tax equity payments from Frederick County increased to $701,903, a $16,893 increase from last year's $685,010. This 2.5% increase is the County's way of supplementing the Walkersville taxpayers for services provided by the Town in lieu of the County providing them. Perhaps next year this could include some liquor license revenue from the County?

- **Other revenue –** Other revenue includes interest income, franchise fees, senior citizens revenue, rental income, mortgage interest and principal payments, snow removal/mow income, contributions and donations, contributions from developers, and various other minor revenues. This year's decrease of $595,436 mostly reflects that last year included the sale of the house and buildings and 24 acres of the Woodsboro Pike property in the amount of $615,452. If the effects of this are removed from the category, the difference is between $197,187 last year and $217,203, or $20,016, a 10.2% increase. Interest income decreased by $1,283, a 5.5% decrease, attributable to the continuing lowering of interest rates. Interest rates fluctuated as low as .04% to a high of .08% with an actual annual yield of .06% at June 30, 2014 in the Town's Local Government Investment Pool accounts for the fiscal year. The highest local CD rate of 1.92% is locked until February 2016. All others currently range from .195% - .27%. Franchise fees received from Comcast increased by $3,449, a 5.0% increase. The cable company's rates continue to go up and the Town receives 5% of the gross revenue under the franchise agreement. Rental fees decreased by $3,251, a 5.5% decrease. This decrease is because prior to the sale of the Walker Farm the tenant paid rent that amounted to $3,676 for the months of July and August of the previous year. Rent of $32,000 from rental of the Walker farm land is constant in both years, and pavilion and Town Hall facility rental is consistent. Senior citizens collected $7,927 to contribute to the Town's food and supply expenses in the amount of $10,450 for their activities. The stipend received from Frederick County for use in operating a recycling dumpster increased to $6,503, an increase of 15.7% or $ 883 due to operating the entire year. We received mortgage interest and principal payments for the entire year in the amount of $31,680, as we continue to finance part of the sale of the Walker Farm. This was an increase of $7,921, or 33.3%. Other revenue in the amount of $20,407 was up by $12,237, or 149.8%. The other revenue included the usual Walkersville History DVDs, mowing and snow removal fees in the amount of $ 560, and sales of miscellaneous patches and booklets. It also included $1,500 for the sale of street millings, a onetime pothole repair grant in the amount of $7,317, and a reimbursement from Potomac Edison for replacement of Town Hall light fixtures, in the amount of $8,553.

Town of Walkersville
Expenditures by Function
Governmental Funds

	Amount		Percent of Total	
	2014	2013	2014	2013
Expenditures				
General government	$ 437,981	$ 385,104	21.32%	16.98%
Public safety	543,788	458,167	26.47%	20.20%
Public works	452,952	406,088	22.05%	17.90%
Waste collection and disposal	241,412	244,063	11.75%	10.76%
Recreation and culture	114,962	112,313	5.59%	4.95%
Non-departmental	232,687	219,417	11.33%	9.67%
Capital outlay	30,775	443,139	1.49%	19.54%
Debt retirement	-	-	-	-%
Total Expenditures	$ 2,054,557	$ 2,268,291	100.00%	100.00%

The following provides an explanation of the expenditures by function that changed notably over the prior year:

- **General government –** The overall increase in the General government expenditures in the amount of $52,877 is attributable to positive variances in every category, except the Burgess and Commissioners' salaries, as follows: Legislative expenses increased by $10,064, comprised of staff salaries increasing $2,186 or 1.1%, operating expenses increasing by $4,421 or 79.8%, and training, meetings, and travel increasing by $3,457, a 262.1% increase. Training, meetings and travel included a drug seminar sponsored by the Town, Red Cross CPR and AED training for staff, substantial CPE for the Town Manager, and hefty conference expenses for a Town Commissioner. Financial administration is up $3,910 with a modest $1,750 increase in Independent auditing, or 25.9%, and a $2,160 increase in operating expenses, all in computer maintenance and service calls this year, 137.3%. Legal expenses and planning and zoning expenses went up $687 and $8,685, respectively, mainly due to a Board of Appeals case involving a fence permit issued by the Town and some development review fees. After legal consultations, a town incurred survey, and a restructuring of the fence, the issue was resolved to the satisfaction of the majority of those involved. Also, the category reflects the basic expenses of the Planning & Zoning Administrator's salary, vacation, and bonus, and the stipend payments to the Planning Commission and Board of Appeals members. Utilities and repairs and maintenance of municipal buildings increased $21,116 or 31.7%. Included in the increase were major repairs to the Town Hall elevator, replacement of all light fixtures to LED in the Town Hall, and another winter of furnace and boiler issues in the Town Hall. The category of Other increased $8,301 due to the start up of the Economic Development Commission and their activities for the year. They were instrumental in the development of a new Town website, purchase of a laptop computer, software, and projection equipment.

- **Public safety** – This category increased overall by $85,621 (an 18.8% increase) due to the increase in the Maryland State Police Resident trooper program of $82,727, 19.4% over last year's contract, in addition to the increase in the Code Enforcement expense of $2,894 (39.5%). The Maryland State Police contract traditionally increases every year, as the State has the ability to dictate the charges applicable to the Town resident troopers, with no proof required. In addition, they are allowed to charge an exorbitant overhead percentage of 24.47%, with no proof or justification. The Code Enforcement Officer was very busy this year, with over 250 cases, and continues to excel at his job of bringing Town citizens into compliance with the Town Code. The Town continues the annual practice of contributing $12,500 to each of the volunteer organizations for the fire company and the ambulance company.

- **Public works** - This category increased overall by $46,864. Maintenance salaries were down by $ 5,960, as a result of timing issues with last year's bonuses and the accrued vacation adjusting entry. Maintenance on streets category was up by $21,029 (69.3%), as we contracted out street sweeping and leaf removal at a cost of $4,740, and spent $38,148 in de-icing salt due to the harsh winter. Parts, tools, and supplies increased by $2,439, or 39.7% over last year. Truck and Equipment expenditures were higher by $33,492 or 80.7%, with $ 7,810 more in gasoline/diesel fuel costs and $25,817 spent in major truck and equipment repairs that we did not have last year. Street lighting decreased by $ 5,314, an unexplainable 9.4% decrease, given the historical trend of rising utility costs. Safety continues to be a priority for Town staff. The safety category increased by $1,030, or 67.5%, and included the addition of AED equipment in the Town Hall lobby. Uniforms and boots increased by $148, or 2.4%. Town staff continue to utilize their $500 annual clothing allowances and rates with the uniform company have increased.

- **Waste collection and disposal** - This category decreased by $2,651. While costs for the trash contract remained constant, the tipping fees decreased by $2,224, salary paid to the park ranger/trash disposer decreased by $1,821, and the town recycling program costs increased by $1,396. The Town continues to sponsor two bulk trash collection days each year that are very successful in redistributing "treasures" throughout the community and reducing the impact on the landfill. We have also established a recycling dumpster for use by residents and businesses who do not have curbside. This is open 2 Wednesdays per month, and a monitor has been hired to ensure that only recyclable items are deposited in the dumpster. A reimbursement in the amount of $6,503 was received to offset the Town's costs to operate the site.

- **Recreation and culture** – This category increased by $2,649, or 2.4% overall with a combination of increases and decreases in the line items as follows: Parks and recreation and Senior citizens expenses decreased $1,813 and $1,825, respectively, and Parks mowing increased $2,913. A sand volleyball court, funded under the Program open space grant commenced and increased the category by $3,300.

- **Non-departmental** – Expenses include retirement plan expense, workers' compensation insurance, employment taxes, health, life and dental insurance, liability insurance, community donations, and miscellaneous other expenses. The category increased overall by $13,270, or 6.0%, with large fluctuations in several of the categories. The retirement plan expense increased by $6,695, or 14.9%, as the State increased the Town contribution from 8.99% to 10.0% of 6/30/2013 salaries. Workers' compensation decreased by $1,970, or 15.0% as our excellent experience resulted in lowered premium. Health, life and dental insurance increased by $10,831, or 11.0%, which is consistent with the historical annual rate increases for the Town's aging personnel. This year, this category also includes $2,903 of expenses for employee holiday dinner and a trip to the Keys game. Mutual of America charges a $144 monthly service fee for the Town's deferred compensation plan administration; this fee is accounted for in this category. Payroll taxes and

Liability and property insurance for the Town had minimal decreases not worthy of mention. Community donations are up by $890, and include a donation to the Community Foundation in memory of Charles Cartwright, a donation to the Glade Valley Community Show, and payment of rent for a storage locker to benefit the Friends of the Walkersville Library. In Other expense, an overall decrease of $2,102 (25.5%) as last year this category included the holiday dinner and town picnic. Advertising and public notices were down by $112 (4.0%), while dues and subscriptions were up by $762, a 59.1% increase. Bank fees in the amount of $1,453 were consistent with last year.

- **Depreciation expense** – Implementation of GASB 34 required the Town to recognize depreciation expense in the government-wide financial statements on what was formerly the General Fixed Assets Account Group. This change primarily affects the Governmental Funds since what is now known as the Business-type Activities have always recorded depreciation expense. Depreciation expense is not a current use of funds; however, it is a measure of the diminishing utility of assets purchased or constructed with funds in previous years.

ENTERPRISE FUNDS REVENUE AND EXPENSE ANALYSIS

Water Utility

Operating Revenues: Total operating revenues are down (again) by $12,427 (1.2%), with a $1,461 decrease in water usage charges for service revenues, a decrease of .2%. Revenue continues to decrease, despite the enactment of an automatic 1% increase to the tier rates every October. Our citizens continue to be diligent in their water conservation efforts. The Town continues to struggle to stretch the current revenue to maintain operations at the water plant. Penalties and interest on outstanding water bills is down by $1,126, a 6.7% decrease, so, not only are citizens conserving water, they are paying their bills in a most timely manner. Wireless telecommunication income is down by $3,001 (2.3%) for a total of $130,070. This is not unexpected, as last year, the revenue was up due to a one time extra payment due to one of the carriers decommissioning their site. Other income is down by $6,888, or 98.1%, due to the one time payment from Syngenta received in last year's income.

Operating Expenses: The Water Fund's operating expenses increased overall by $16,160 or 2.1%, with several large increases and decreases a few categories. Staff salaries increased by $5,921, 2.9%, and included a 2% raise and year-end bonus. Pension expense was up $2,197 (12.6%), payroll tax expense was down $259 (1.7%), workers' compensation insurance was up $3,240 (35.9%), and health, life, and dental insurance was up by $3,324 (6.1%). There were substantial increases in the categories of Distribution maintenance and Miscellaneous in the amounts of $40,845 and $16,776, respectively. Distribution maintenance is up due to the new system of meters and meter reading software and the increase of tower maintenance contracts. Miscellaneous includes start up expenses of investigating the replacement of the water plant, along with the repair of a sinkhole. Chemicals decreased by $11,958 or 7.6%, as salt prices decreased and other chemicals remained stable. Sewer treatment fees decreased $26,322, 20.1%, as we received a much appreciated credit to our waste water treatment bill this year. We continue to be at the County's mercy for disposal of our waste water from the plant. Other operating expenses were down by $12,221, or 36.0%. This decrease is a net result of ups and downs in several expenses that combine to make up Other operating expenses. The major contributor to this decrease is the cost of repairing a sinkhole went down this year, to $1,855. Computer expenses were up by $2,996, (106.5%), and Building repairs and maintenance was down by $1,319, (89.2%), Uniforms and boots consistent at $2,487, and Truck & equipment expenses were up by $ 521, (5.1%). Administrative expenses remained steady with a slight increase of $482, or 3.3%, a reflection of tight spending policies and efficient management of resources. Capital outlay for Equipment and Building

improvements increased by $176,511, due to the continuation and completion of the water line replacement project on Frederick Street. Total Capital Outlay consists of $321,520 for the completion of the water line and $79,720 in equipment additions. Depreciation expense, a non-cash outlay, decreased by $5,096, an 3.2% decrease to $151,725, due to some items in the aging infrastructure being fully depreciated.

ANALYSIS OF BUDGET AND ACTUAL RESULTS

Governmental and Enterprise Funds

The Town budgets for the General Fund and the Water Fund. The General Fund is the operating fund and comprises all the transactions and activities of the Town, except for the water utility. The Water Fund, on the other hand, operates as a self-sustaining business. For the fiscal year ended June 30, 2014, there were no adjustments made to the originally adopted budgets.

Regarding actual results of the General Fund and the Water Fund to the adopted budgets, the following variations are notable:

General Fund

- Local property taxes and interest exceeded expectations by $32,771, or (2.9%). Personal property tax revenue exceeded budget expectations by $ 40,415, 14.6%, while real property taxes reflected a negative variance of $6,619, (.8%). Penalties and interest on tax payments that did not meet budget expectations by $1,025. As the Commissioners continue to lower the tax rate and property tax revenue goes down, businesses seem to be holding their own and the Town is reaping some benefit through their prosperity and personal property taxes assessed. Traders' license income exceeded the increased annual budget amount of $3,000, by $3,506 or 116.9%. The Maryland legislature redirected revenue from liquor licenses to the counties, therefore, the Town is out whatever was generated within the Town and has a negative variance of $2,000. We will no longer budget for this item. Planning and zoning revenue exceeded expectations by $6,889, or 172.2%, as a result of several developments gearing up for approval. Admissions tax exceeded expectations by $5,629, or 14.1%, another indicator that business is beginning to thrive. Highway user tax revenue was $2,343 less than promised and budgeted. There was a one-time grant received in FY 2014, so expectations for next year are lower. The State Aid for Police Protection grant at $30,892 was $ 69 less than budgeted due to an adjustment to our final payment. The Program Open Space income was $74,830 less than expected, due to the timing and completion of the projects. FY 2015 will show the results of the reimbursement from the State as projects are implemented. Income taxes received were higher by $51,651, or 7.7%, another positive sign for the economy. Conservative budgeting in response to the current economic predictions and conditions is probably the reason the Town remains in good financial condition. Tax Equity was exactly the amount the County told us it would be, $701,903, an increase over last year's amount by $16,893 or 2.5%. Walkersville continues to choose Tax equity rather than Tax differential as the calculation for our reimbursement from the County for duplicate services provided. Rental income exceeded budget by $2,165, which includes a farm lease of 200 acres, park pavilion, and room rentals in the Town Hall. Interest rates remain consistently low; conservative budgeting for income at $24,500 resulted in actual not meeting expectations by $2,310, for a total of $22,190. Franchise fees exceeded budget by $12,331, due to not knowing how to predict the gross revenue of Comcast. The Town negotiated the agreement for the next 15 years, with revenue calculated at 5% of their gross revenues. Contributions and donations in the amount of $7,927 exceeded expectations by $1,427. Contributions and donations consist of revenue collected from the Senior Citizens group to offset

the costs of food catering. The Town continues to hold a second mortgage on the Walker Farm property. Interest and principal payments came in over budget in the amount of $12,460, due to the budgeting of only the interest portion of the mortgage payments received. The Town entered into an agreement with Frederick County to provide a dumpster recycling facility, located in the Town Hall parking lot two Wednesdays per month. The County reimburses the Town for this expense, which was underestimated by $903. Miscellaneous revenue exceeded the budget expectations of $1,000 by $19,407. The variance included income from snow removal and mowing in the amount of $1,540, sale of street millings in the amount of $1,500, reimbursement for damages to a park in the amount of $250, reimbursement for damage to a light pole in the amount of $753, a one-time grant from the State for pothole repair in the amount of $7,317, and the reimbursement from Potomac Edison for replacement of light fixtures in Town Hall in the amount of $8,553. We will continue to budget this at $1,000, as this was an extremely unusual year for miscellaneous income. Total Revenues exceeded budget by $67,587. This puts the estimated revenue pretty much right on target, with only a 2.3% differential.

- Actual expenditures were under budgeted expenditures by $925,215 or 31.0%, with all budget categories being under-spent, except Public works which was over by $1,452. Under-spent categories break out as follows: General government was under by $44,339, Public safety was under by $6,462, Waste collection and disposal was under by $32,048, Recreation and culture was under by $102,183, Non-departmental was under by $17,853, and Capital Outlay was under by $723,782. Several of the capital projects were not commenced or were in process, accounting for the difference between budget and actual. Also, the Burgess and Commissioners and town staff continue to budget in an extremely conservative manner, giving priority to spending the funds entrusted to us in the most responsible processes, ensuring that our citizens receive the best services for their tax dollars.

Water Fund

- Water total operating revenues were more than expected by $27,872, with variances in every category. Charges for service continues to be a concern with $1,076 less than expected received, a .1% variance from budget expectations. Automatic 1% rate increases have not done the job in generating sufficient revenue, as citizens continue to conserve water. Meter service charges were down by $690, or 34.5%, while Penalties and interest were $736 over budget, or 4.9%. As we are steadily replacing meters with models that utilize scanning readers, maintenance calls on old meters are declining. Developers' connection charges, used for expanding the system, was not budgeted for or received as there are no pending agreements for water tap fees. Wireless tower income exceeded budget expectations by $29,270 or 29.0%. The Total Revenues variance was $26,826 less than expected.

- Total operating expenses were less than expected by $66,141. Salaries and corresponding Payroll taxes came in under budget by $15,174 and $2,148, as we continue to budget 5% salary increases that do not materialize. Pension plan expense was close to target with a slight variance of $567 over budget, and Medical insurance was under budget by $ 2,169. Workers compensation insurance was under-spent by $ 4,686. Electricity, Parts, tools, and supplies, Chemicals, Sewer treatment fees, and Other operating expenses, and Safety expense were under-budget by $5,698, $1,114, $15,594, $26,322, $17,312, and $ 623 in part because of the efficiently managed spending and the conservative budgeting philosophy of the Town. Audit fees were under-budget by $1,000 at $8,500. There were no Legal fees so the entire budgeted amount, $1,000, was a positive variance to the fund. Administrative expenses were under-budget by $5,259. Property insurance was under-budget by $4,173, due to lowered premiums for good experience rating. Miscellaneous

expense was over-budget by $12,067, due to preliminary work on the new water plant that was not budgeted in a separate line.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town of Walkersville's total investment in capital assets, net of related debt, including construction in process, for its governmental and business type activities as of June 30, 2014, amounts to $11,100,113 (net of accumulated depreciation) compared to $11,182,372 at June 30, 2013, a decrease of $ 82,259. This investment in capital assets includes infrastructure donated by developers, land, farm land, buildings, furnishings, equipment and machinery, water treatment plant, distribution system, water towers, roads, stormwater structures, recreation and parks facilities, as well as construction in progress.

GASB 34 requires the Town to include certain infrastructure items on the financial statement reporting effective with the year beginning July 1, 2003. These financial statements include all known assets, including infrastructure assets and certain developer assets, which were constructed and donated to the Town as a requirement of their development site plans. For FY 2014, there were no contributions of infrastructure from developers.

GASB 34 also allows the Town to report depreciation expense on infrastructure assets or to adopt the modified approach, which allows depreciation expense to be ignored if expenditures that are necessary to maintain infrastructure assets to an objectively determined level of service are made. Consistent with what appears to be an overwhelming common practice/industry standard being adopted by governmental entities nationwide subject to GASB 34, the Town of Walkersville has adopted the reporting of depreciation expense.

This year's capital additions included:

Purchased by Town:

– Glade Road in process	$ 8,438
– Dodge Ram Truck	31,518
– Spring Cow w/sound	1,799
– EZ Digger	815
– EDC Vivitek projector	815
– EDC Toshiba laptop	848
– Planning department computer	1,217
– Accounting department computer	1,084
– Frederick Street water line replacement – completion costs	321,520
– Automatic Meter Reading Interface Module	2,000
– Heritage tank MDS iNet Radio replacement	3,044
– 3 Keystone electronic valves	2,833
– Meter reading hand held devices, software, and meters-CIP	56,084
Total purchased by the Town	$ 432,015

The Town of Walkersville's fiscal year 2015 capital budget plans for spending $1,297,885 compared to FY 2014's budget of $844,311 for capital projects. Some of FY 2014's projects were not implemented

or completed, and thus reappeared in the FY 2015 budget. Plans are in effect for completing the curb, gutter, stormwater and sidewalk along Glade Road, and evaluating next year's street paving needs. The process for meter reading and downloading usage into the Town's utility billing software is being implemented. Purchase of the software, readers, meters, and installation to date is reflected in the construction in process. The FY 2015 capital budget includes the regular annual budgeting of equipment, major paving and overlay projects in the amount of $869,885 in the General Fund budget and $428,000 in the Water Fund capital budget. The Town has no plans to issue debt or borrow funds to finance these projects. The Town has completed a study for replacement of the aging water plant. Several options were reviewed in the study, and the Burgess and Commissioners committed to the Microfiltration with Reverse Osmosis option, considered the state of the art option for the Town. Funds are being amassed to help with the project, along with research as to available grant and loan options. Discussion continues regarding the loan of funds from the General Fund to the Water Fund to build the new plant. This plan has up to a ten year completion goal. More detailed information about the Town's capital assets is presented in Notes 1, 7, and 8 to the financial statements.

Long-Term Debt Activity

The Town of Walkersville has no long term debt activity at this time and has no plans to enter into debt. However, the water plant needs are being studied and this goal may need to be altered.

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

- The Town of Walkersville operated its General Fund on the 15.0¢ tax rate per $100 of assessed value for FY 2014. During budget deliberations, the Commissioners voted to continue this lowered rate that is below the constant yield for FY 2015. The fall in the assessable tax base took effect on the Town's constant yield tax rate for the coming year. According to the Maryland State Department of Assessments and Taxation, the Town would need to adopt a tax rate of 17.02¢ in order to generate the same revenue as last year. With the 2¢ cut in FY 2014, the constant yield dropped to 14.94¢ per $100 of assessed value for FY 2015. The potential revenue if the constant yield had been adopted would have been $937,727, but the 15¢ rate adopted generated $819,740 or a $117,987 savings in taxes (12.6%) for the taxpayers of Walkersville. Our tax rate continues to be one of the lowest tax rates in the State of Maryland for a town of our size.

- The Town is in the process of implementing several Program Open Space projects that have spanned several fiscal years. The sand volleyball court at Community Park was completed during FY 2014. Through the summer, five pavilion roofs were replaced with heavy duty maintenance-free tin roofs and additional walking paths were roughed out at Heritage Farm Park. Refurbishment of the basketball court at Community Park will wait until the warmer spring weather to be implemented.

- The Town-operated Water Utility had a reasonable year but the service revenue continues to come in lower than anticipated. An automatic 1% increase to the tier rates has been implemented, but it is expected that this will only maintain basic operating funding needs. With upcoming plans to evaluate and possibly build a new plant, financing needs to be a priority consideration. Our water utility is our most important priority with providing our citizens the best tasting, cleanest, safest drinking water on the planet.

- The Burgess and Commissioners continue to operate in their conservative manner, even though the Town is very strong financially. They continue to look for ways to provide tax relief for the citizens and promote the "do more with less" attitude. We continue to proceed cautiously, taking

the rebounding economy and other cash flow issues into consideration prior to going forward with any expenditure.

- We continue to struggle with the State of Maryland to receive highway user revenues that should be due to all municipalities. The State authorized a one-time grant, in the amount of $113,438, and the Town also received $49,143, once again less than in the notification letter. Police protection grant was promised at $30,961, but prior to the 4th quarter payment it was reduced to $30,892. The State also passed a law diverting all liquor license revenue to the counties, rather than the municipalities where the businesses are operating. The local chapter of the Maryland Municipal League will be looking into these shared revenue streams as they continue to be a source of concern and aggravation among the municipalities.

- The Town continues to thrive there is hope for another successful and blessed year.

REQUESTS FOR INFORMATION

This Management Discussion and Analysis document is designed to provide our citizens, taxpayers, water customers, and interested persons with a general overview of the Town of Walkersville's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Manager
Town of Walkersville
PO Box 249
Walkersville, MD 21793

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ 2,106,471	$ 433,338	$ 2,539,809
Investments - Maryland Local Government Investment Pool	2,548,853	695,933	3,244,786
Certificates of deposit, including accrued interest	1,600,895	-	1,600,895
Receivables			
Taxes	4,063	-	4,063
Other	27,702	-	27,702
Water service charges, net of allowance for uncollectibles of $775	-	74,930	74,930
Mortgage receivable - current portion	14,156	-	14,156
Due from other governmental agencies	99,971	-	99,971
Inventory, at cost, net of allowance	12,617	21,689	34,306
Internal balances	(32,002)	32,002	-
Mortgage receivable, less current maturities	364,533	-	364,533
Capital assets			
Land	2,047,319	7,507	2,054,826
Buildings & furnishings	1,852,041	40,743	1,892,784
Equipment	739,588	501,516	1,241,104
Improvements	1,559,812	15,358	1,575,170
Water treatment plant	-	1,629,263	1,629,263
Distribution system	-	3,204,497	3,204,497
Water systems	-	236,026	236,026
Water towers	-	1,618,317	1,618,317
Filter rehabilitation project	-	144,394	144,394
Urban dentrification system	-	8,938	8,938
Infrastructure	8,274,512	-	8,274,512
Construction in progress	54,058	-	54,058
Accumulated depreciation	(7,256,947)	(3,576,829)	(10,833,776)
TOTAL ASSETS	$ 14,017,642	$ 5,087,622	$ 19,105,264
LIABILITIES			
Current Liabilities			
Accounts payable	$ 259,203	$ 49,564	$ 308,767
Accrued salaries and witholdings	45,559	17,439	62,998
Deposits	35,512	19,424	54,936
Unearned revenue - rent	8,000	6,265	14,265
TOTAL LIABILITIES	348,274	92,692	440,966
NET POSITION			
Net investment in capital assets	7,270,383	3,829,730	11,100,113
Unrestricted	6,398,985	1,165,200	7,564,185
TOTAL NET POSITION	$ 13,669,368	$ 4,994,930	$ 18,664,298

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Activities
Year Ended June 30, 2014

Program Activities	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Position Primary Government: Total
PRIMARY GOVERNMENT							
Governmental Activities							
General government	$ 484,088	$ 17,493	$ 1,030	$ -	$ (465,565)	$ -	$ (465,565)
Public safety	543,788	-	30,892	-	(512,896)	-	(512,896)
Public works	719,458	1,540	-	-	(717,918)	-	(717,918)
Waste collection and disposal	241,412	6,503	-	-	(234,909)	-	(234,909)
Recreation and culture	164,897	-	11,527	-	(153,370)	-	(153,370)
Non-departmental	232,687	-	-	-	(232,687)	-	(232,687)
Total Governmental Activities	2,386,330	25,536	43,449	-	(2,317,345)	-	(2,317,345)
Business-type activities:							
Water	954,830	985,172	-	-	-	30,342	30,342
TOTAL GOVERNMENT	$ 3,341,160	$ 1,010,708	$ 43,449	$ -	(2,317,345)	30,342	(2,287,003)
General Revenues							
Taxes							
Property taxes, levied for general purposes					1,146,426	-	1,146,426
Income taxes					720,356	-	720,356
Highway taxes					162,581	-	162,581
Other local taxes					747,532	-	747,532
Franchise fees					72,331	-	72,331
Investment earnings					41,465	954	42,419
Miscellaneous					75,301	-	75,301
Total General Revenues, Special Items, and Transfers					2,965,992	954	2,966,946
Change in net position					648,647	31,296	679,943
NET POSITION - BEGINNING					13,020,721	4,963,634	17,984,355
NET POSITION - ENDING					$ 13,669,368	$ 4,994,930	$ 18,664,298

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

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Balance Sheet – Governmental Fund
June 30, 2014

	General Fund
ASSETS	
Current Assets	
Cash	$ 2,106,471
Investments - Maryland Local Government Investment Pool	2,548,853
Certificates of deposit, including accrued interest	1,600,895
Receivables	
Taxes	4,063
Other	27,702
Due from other governmental agencies	99,971
Inventory, at cost	12,617
TOTAL ASSETS	$ 6,400,572
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	$ 259,203
Accrued salaries and witholdings	45,559
Deposits	35,512
Due to other funds	32,002
Unearned revenue - rent	8,000
Total Liabilities	380,276
DEFERRED INFLOWS OF RESOURCES	
Unavailable tax revenue	1,077
Total deferred inflows of resources	1,077
Fund Balances	
Nonspendable	12,617
Assigned	746,157
Unassigned	5,260,445
Total Fund Balances	6,019,219
TOTAL LIABILITIES AND FUND BALANCES	$ 6,400,572

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Reconciliation of Fund Balance to the Statement of Net Position of Governmental Activities
June 30, 2014

TOTAL FUND BALANCE - GOVERNMENTAL FUND		$ 6,019,219
Amounts reported for governmental activities in the statement of net position are different because:		
Long-term assets not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Unavailable tax revenue		1,077
Long-term mortgage receivable		378,689
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of:		
Property, plant and equipment	14,527,330	
Accumulated depreciation	(7,256,947)	7,270,383
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 13,669,368

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenditures and Change in Fund Balance – Governmental Fund
Year Ended June 30, 2014

	General Fund
Revenues	
Local property taxes and interest	$ 1,146,770
Licenses and permits	17,395
Grants and shared taxes	1,665,991
Other revenue	217,203
Total Revenues	3,047,359
Expenditures	
General government	437,981
Public safety	543,788
Public works	452,952
Waste collection and disposal	241,412
Recreation and culture	114,962
Non-departmental	232,687
Capital outlay	30,775
Total Expenditures	2,054,557
EXCESS OF REVENUES OVER EXPENDITURES	992,802
TOTAL FUND BALANCES - BEGINNING OF YEAR	5,026,417
TOTAL FUND BALANCES - END OF YEAR	$ 6,019,219

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Governmental Fund to the Statement of Activities
Year Ended June 30, 2014

EXCESS OF REVENUES OVER EXPENDITURES - GOVERNMENTAL FUND	$	992,802
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.		30,775
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.		(362,548)
Revenues and expenditures are reported in the statement of activities on the accrual basis and in the governmental funds when they provide or use current financial resources. This is the net difference between the prior year and current year unearned revenues.		23
The principal payments received on the mortgage receivable are reflected as revenue on the governmental fund statements and therefore are an increase in fund balance, however these payments are reflected as a reduction in the mortgage receivable on the Statement of Net Position, with no effect on the Net Position.		(12,405)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$	648,647

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Net Position – Proprietary Fund
Business Type Activities – Enterprise Fund
June 30, 2014

	Water Fund
ASSETS	
Current Assets	
Cash	$ 433,338
Investments - Maryland Local Government Investment Pool	695,933
Receivables	
Water service charges (net of allowance for uncollectibles of $775)	74,930
Due from other funds	32,002
Inventory, at cost, net of allowance	21,689
Total Current Assets	1,257,892
NonCurrent Assets	
Property, plant and equipment, net of accumulated depreciation	3,829,730
TOTAL ASSETS	$ 5,087,622
LIABILITIES	
Current Liabilities	
Accounts payable	$ 49,564
Accrued salaries and witholdings	17,439
Deposits	19,424
Unearned revenue	6,265
Total Current Liabilities	92,692
NET POSITION	
Invested in capital assets	3,829,730
Unrestricted	1,165,200
TOTAL NET POSITION	$ 4,994,930

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Revenues, Expenses and Change in Net Position – Proprietary Fund
Business Type Activities – Enterprise Fund
Year Ended June 30, 2014

	Water Fund
OPERATING REVENUES	
Charges for services	$ 837,924
Meter service charge	1,310
Penalties and interest	15,736
Wireless tower income	130,070
Other income	132
Total Operating Reveneus	985,172
OPERATING EXPENSES	
Depreciation	151,725
Salaries	208,696
Electricity	54,302
Distribution maintenance	118,497
Parts, supplies, and tools	1,386
Chemicals	144,406
Sewer treatment fees	99,384
Other operating expenses	21,688
Audit	8,500
Administrative expenses	14,951
Pension plan	19,567
Workmen's compensation insurance	5,774
Payroll taxes	15,352
Property insurance	11,827
Medical insurance	57,831
Safety	877
Miscellaneous	20,067
Total Operating Expenses	954,830
Income From Operations	30,342
NON-OPERATING REVENUES	
Interest income	954
Change in Net Position	31,296
NET POSITION - BEGINNING OF YEAR	4,963,634
NET POSITION - END OF YEAR	$ 4,994,930

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Statement of Cash Flows – Proprietary Fund
Business Type Activities – Enterprise Fund
Year Ended June 30, 2014

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 997,862
Cash payments to suppliers for goods and services	(631,665)
Cash payments to employees for services	(212,140)
NET CASH PROVIDED BY OPERATING ACTIVITIES	154,057
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Decrease in due from other funds	(1,680)
Increase in due to other funds	(32,002)
NET CASH (USED IN) NONCAPITAL FINANCING ACTIVITIES	(33,682)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(401,240)
CASH FLOW FROM INVESTING ACTIVITIES	
Interest on cash and investments	954
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(279,911)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,409,182
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,129,271

(Continued)

		Water Fund
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	$	30,342
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		151,725
Decrease in receivables		9,746
Decrease in inventory		5,148
(Decrease) in accounts payable		(42,406)
Increase in deferred revenue		3,644
(Decrease) in accrued salaries		(3,442)
(Decrease) in deposits		(700)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	154,057
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET POSITION		
Cash	$	433,338
Investments - Maryland Local Government Investment Pool		695,933
	$	1,129,271

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The primary government is the Burgess and Commissioners of Walkersville, MD, referred to herein as the Town or the Burgess and Commissioners.

The accompanying financial statements are presented as of June 30, 2014 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (the 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 and its component units. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual 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 and inventories.

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 Burgess and Commissioners of Walkersville, MD. 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 Burgess and Commissioners of Walkersville, MD 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 Burgess and Commissioners (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 the 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 claims and judgments, are recorded only when payment is due.

Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The Water Fund accounts for the activity of the Town's water system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 enterprise funds are charges to customers for sales and services. The Water Fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Burgess and Commissioners 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 Personal Property Taxes

The Town's tax levy date for Real Estate taxes is July 1 of each year. These taxes are due July 1 with interest accruing beginning October 1. If tax bills are not paid by the last day of February, the County Treasurer begins the process to sell the delinquent taxpayer's property.

The tax levy date for personal property taxes is July 1.

Inventories and Prepaid Items

Inventories of materials and supplies are determined by physical count and are stated at the lower of cost, on the first-in first-out (FIFO) basis, or market.

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 $500 (amount not rounded). 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and placed in service. 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. No interest was capitalized during the year ended June 30, 2014.

Property, plant, and equipment of the Town is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings & Furnishings	5-40
Equipment	3-20
Improvements	5-40
Water Treatment Plant	5-50
Distribution System	3-50
Water Systems	75
Water Towers	5-40
Filter Rehabilitation Project	50
Urban Dentrification System	50
Infrastructure	15-50

Statement of Cash Flows

For the purposes of the statement of cash flows, the Water Fund has defined cash equivalents as all highly liquid deposits and other investment instruments that have an original maturity of three months or less.

Accounts Receivable

The Town provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Trade accounts receivable are recorded net of an allowance for expected losses. Receivables are generally due thirty (30) days after billed. The Town maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, projection of trends, and other information. Trade receivables are charged off against the allowance when, in the judgment of management, it is unlikely they will be collected.

Concentrations of Credit Risk

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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	$.15 per $100 of assessable base
Property taxes	$.44 per $100 of assessable base

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 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 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 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 reports unavailable tax revenues as deferred inflows of resources on the governmental funds balance sheet.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

Net investment in capital assets

Consists of capital assets grouped into one component of net position. Accumulated depreciation and the outstanding balances of debt, accounts payable, and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce the category. Net investment in capital assets as of June 30, 2014 consists of the following:

	Government Wide Activities	
	Governmental Activities	Business Type Activities Water Fund
Capital assets	$ 14,527,330	$ 7,406,559
Accumulated depreciation	(7,256,947)	(3,576,829)
Net investment in capital assets	$ 7,270,383	$ 3,829,730

Restricted

Consists of components of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, regulations of other governments, law through constitutional provisions or enabling legislation. As of June 30, 2014 the Town had no restrictions of net assets.

Unrestricted

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

There was no approved Capital Projects Fund budget. The Town budgets 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 principal payments on debt and capital equipment purchases as expenses and does not reflect depreciation and amortization expense.

In February of each year, the Burgess and the Town Manager get together informally and discuss the budget. By the end of April, the Town Manager proposes a budget to the Burgess and Commissioners, who review and finalize a proposed budget and hold a public hearing to present the budget. During the month of May, concerns proposed by citizens are discussed and the Burgess and Commissioners approve the budget by the end of May.

The Town's budget is comprised of the current operating budget. The current operating budget is based upon estimated revenues and expenditures of operations for the ensuing fiscal year. The Burgess and Commissioner 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 Burgess and Commissioners. If the Burgess and Commissioners 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

The Town's deposit policy specifies that all deposits must be entirely covered by federal depository insurance, deposit surety bond, or by collateral in the form of pledged securities in accordance with State statute. In order to anticipate market changes and provide a level of security all deposits, certificates of deposit and repurchase agreements shall be secured by pledged collateral with a market value of 102% of principal plus accrued interest.

At June 30, 2014, the carrying amount of the Town's deposits was $4,140,704 including interest receivable. The related bank balance totaled $4,159,029.

NOTE 3 CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

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

Woodsboro Bank	$ 850,000
The Columbia Bank	500,000
Capital One Bank	242,613
First United Bank & Trust	250,000
PNC Bank	2,316,416
	$ 4,159,029

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk, however, follows State law. As of June 30, 2014 $2,916,416 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	$ 2,916,416

NOTE 4 INVESTMENTS

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

Investment Type	Maturities	Fair Value
Maryland Local Government Investment Pool	See description of MLGIP	$ 3,244,786

The Burgess and Commissioners have agreed to participate in the State of Maryland Local Government Pool (MLGIP) established by Article 95 Section 22G of the Annotated Code of Maryland. The pool is administered by the State Treasurer who invests the funds in accordance with the provisions set forth in Section 6-222 of the State Finance and Pronouncement Article of the Annotated Code of Maryland. MLGIP carries a Standard & Poors rating of AAAm.

Significant policies that relate to MLGIP are as follows:

- MLGIP seeks to maintain a constant unit value of $1.00 per unit. Unit value is computed using the amortized cost method.
- The maximum allowable maturity of any individual security is 13 months.
- All securities in the MLGIP are valued daily on an amortized cost basis. The MLGIP is valued weekly using current market rates for the individual securities held in the pool.
- The yield of the MLGIP is calculated daily and is based on an amortized cost basis.
- Net investment income is accrued daily.
- All participants in the MLGIP receive individual statements for each of their accounts. Statements can be received daily, monthly, quarterly, or upon request.
- Participation in the MLGIP is strictly voluntary.

NOTE 4 INVESTMENTS (CONTINUED)

Interest rate risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Town's investment policy specifies that the Town of Walkersville, MD will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution. The Town's investment policy also states that the investment portfolio will remain sufficiently liquid to enable the Town of Walkersville to meet all operating requirements which might be reasonably anticipated. To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than one year from the date of purchase. However, the Town may invest in repurchase agreements using longer-dated investments not to exceed three years to maturity. Reserve funds may be invested in securities exceeding three years if the maturities of such instruments are made to coincide as nearly as practicable with the expected use of the funds.

Credit risk

Investments of the Town, including the MLGIP, are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements. In addition, recent economic uncertainty and market events have led to volatility in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the Town's investments.

NOTE 5 MORTGAGE RECEIVABLE

On August 15, 2012, the Town sold a farm house for a sales price of $1,070,000. Of the total sales price the Town received cash in the amount of $615,452, $670,000 less related closing expenses of $54,548, and financed the remaining $400,000. Interest on the mortgage receivable is 5%. The note is being amortized over 240 months, with a 3-year balloon payment due August 15, 2015. The note is guaranteed by business entities of the borrower and an individual related to the borrower. Monthly payments of $2,640 commenced in September 2012. Total payments received during the year ended June 30, 2014 were $31,680, including interest of $19,275. The outstanding balance on the mortgage receivable at June 30, 2014 was $378,689.

NOTE 6 INVENTORY

Inventory consists of the following:

	General Fund
Inventory at cost (fund balance - reserved for inventory)	$ 12,617

	Enterprise Fund
Inventory, at cost	$ 23,227
Allowance for obsolete inventory	(1,538)
	$ 21,689

NOTE 7 CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	$ 2,047,319	$ -	$ -	$ 2,047,319
Construction in progress	45,621	8,438	-	54,058
Total Capital Assets Not Being Depreciated	2,092,940	8,438	-	2,101,377
Capital Assets Being Depreciated				
Improvements	1,557,198	2,614	-	1,559,812
Infrastructure	8,274,512	-	-	8,274,512
Building and furnishings	1,852,042	-	-	1,852,041
Equipment	719,866	19,722	-	739,588
Total Capital Assets Being Depreciated	12,403,618	22,336	-	12,425,953
Total Capital Assets	14,496,558	30,775	-	14,527,330
Accumulated Depreciation				
Improvements	(763,869)	(51,609)	-	(815,478)
Infrastructure	(4,466,592)	(249,158)	-	(4,715,750)
Building and furnishings	(989,164)	(46,870)	-	(1,036,034)
Equipment	(674,774)	(14,911)	-	(689,685)
Total Accumulated Depreciation	(6,894,399)	(362,548)	-	(7,256,947)
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 7,602,159	$ (331,773)	$ -	$ 7,270,383

NOTE 7 CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	$ 7,507	$ -	$ -	$ 7,507
Construction in progress	214,606	321,520	(536,127)	-
Total Capital Assets Not Being Depreciated	222,113	321,520	(536,127)	7,507
Capital Assets Being Depreciated				
Equipment	421,796	79,720	-	501,516
Improvements	15,358	-	-	15,358
Building and furnishings	40,743	-	-	40,743
Water treatment plant	1,629,262	-	-	1,629,263
Distribution system	2,668,370	536,127	-	3,204,497
Water systems	236,026	-	-	236,026
Water towers	1,618,317	-	-	1,618,317
Filter rehabilitation project	144,394	-	-	144,394
Urban detrification project	8,938	-	-	8,938
Total Capital Assets Being Depreciated	6,783,204	615,847	-	7,399,052
Total Capital Assets	7,005,317	937,367	(536,127)	7,406,559
Accumulated depreciation				
Equipment	(362,035)	(18,464)	-	(380,499)
Improvements	(14,155)	(233)	-	(14,388)
Building and furnishings	(18,002)	(1,259)	-	(19,261)
Water treatment plant	(793,556)	(35,408)	-	(828,964)
Distribution system	(880,187)	(59,290)	-	(939,477)
Water systems	(140,972)	(2,347)	-	(143,319)
Water towers	(1,164,784)	(31,657)	-	(1,196,441)
Filter rehabilitation project	(48,373)	(2,888)	-	(51,261)
Urban detrification project	(3,040)	(179)	-	(3,219)
Total Accumulated Depreciation	(3,425,104)	(151,725)	-	(3,576,829)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 3,580,213	$ 785,642	$ (536,127)	$ 3,829,730

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	$ 46,107
Public works	266,506
Recreation and culture	49,935
	$ 362,548
Business-Type Activities	
Water	$ 151,725

NOTE 8 GOVERNMENTAL FUND BALANCES

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

	General Fund
FUND BALANCES	
Nonspendable	
Reserved for inventory	$ 12,617
Assigned for capital projects	
Glade Road Design/Construction	235,035
William Street/Hahn Circle	281,735
HFP building	12,608
Park projects	216,779
	746,157
Unassigned	5,260,445
	$ 6,019,219

NOTE 9 RETIREMENT PLAN

The Town participates in the Maryland State Employees' Retirement System and the Employees' Alternate Contributory Pension System (System), which are statewide agent cost-sharing multiple-employer public employee retirement systems administered by the Maryland State Retirement and Pension Systems in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. The payroll for employees covered by the System for the year ended June 30, 2014 was $707,725; the Town's total payroll was $780,633. Employees working at least 500 hours annually are eligible to participate in the System.

A member of the Employees' Retirement System may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e., average of the member's three highest years of annual earnable compensation) multiplied by the number of years of creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age. The Retirement System also provides death and disability benefits. As of June 30, 2011, all Town participants in the Employees' Retirement System were retired.

A member of the Employees' Pension System may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. Accrued, unused sick leave is counted as years of service for retirement purposes. On retirement from service, a member shall receive an annual service retirement allowance based on the member's average final compensation (i.e., average annual earnable compensation during any three consecutive years that provide the highest average earnable compensation) and years of creditable service with a provision for additional benefits for compensation earned in excess of the social security wage base. A member may retire with reduced benefits after attaining age 55 and completing 15 years of eligibility service. The Pension System also provides death and disability benefits.

NOTE 9 RETIREMENT PLAN (CONTINUED)

The State Retirement Agency (Agency) issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-800-492-5909. Alternatively, the comprehensive annual financial report can be viewed on the Agency's website at www.sra.state.md.us.

Retirement System participants are required to contribute 5% of their annual compensation; however, their retirement benefits are subject to a 5% limit on their annual cost of living adjustment. Alternate Contributory Pension System members are required to contribute 7% of earnable compensation. The Town is required to contribute the remaining amounts necessary to pay benefits when due.

The Town has elected to offer the enhanced pension benefits to all participating employees under the Alternate Contributory Pension System. The total additional expense amounted to $7,612 for the year ended June 30, 2014.

The actuarially determined contribution requirement for the year ended June 30, 2014 was $117,608, which consisted of $68,577, from the Town and $49,031 from the employees; these contributions represented approximately 10% and 7% of covered payroll, respectively, made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2013.

Significant actuarial assumptions used include (a) a rate of return on the investments of 7.75 percent compounded annually *(adopted June 30, 2003)*, (b) projected salary increases of 3.5 percent to 12.0 percent compounded annually, attributable to inflation *(adopted June 30, 2007)*, (c) additional projected salary increases ranging from 0.00 percent to 8.5 percent per year, attributable to seniority and merit *(adopted June 30, 2007)*, (d) post-retirement benefit increases ranging from 2.75 percent to 3.5 percent per year depending on the system *(adopted June 30, 2003)*, (e) rates of mortality, termination of service, disablement and retirement based on actual experience during the period from June 30, 2003 to June 30, 2006 *(adopted June 30, 2007)*, and (f) an increase in the aggregate active member payroll of 3.5 percent annually *(adopted June 30, 2007)*.

The actuarial value of assets was determined using a 5 year smoothing method of recognizing investment gains and losses over a five-year period. Under this method, each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% or less than 80% of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over a closed 40 year period (as provided by law). The liquidation period for the unfunded actuarial accrued liability is 8 years from June 30, 2013. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 22.722 years.

NOTE 9 RETIREMENT PLAN (CONTINUED)

A three year trend of the Town's annual pension cost is as follows:

Fiscal Year Ending June 30	Total Annual Pension Cost (APC)	APC Contributed By Town	Percentage of APC Contributed	Net Pension Obligation
2012	$ 76,806	$ 76,806	100%	$ -
2013	$ 59,666	$ 59,666	100%	$ -
2014	$ 68,577	$ 68,577	100%	$ -

The following is a Schedule of the Funding Progress of the Combined State Retirement and Pension System of Maryland:

Actuarial Valuation Date June 30	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) Entry Age b	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a Percentages of Covered Payroll [(b-a)/c]
2011	$ 36,177,656	$ 55,917,543	$ 19,739,887	64.70	$ 10,478,800	188%
2012	$ 37,248,401	$ 57,869,145	$ 20,620,744	64.37	$ 10,336,537	199%
2013	$ 39,350,969	$ 60,060,091	$ 20,709,122	65.52	$ 10,477,544	198%

NOTE 10 COMPENSATED ABSENCES

Full-time permanent employees are granted vacation benefits to specified maximum amounts depending on tenure with the Town. Upon resignation from Town employment, an employee may take the unused portion of the vacation leave or request payment in full for all unused vacation leave. Sick leave accrues to full-time permanent employees with no maximum. Upon resignation from Town employment, the employee is not paid for the accumulated sick leave.

The estimated current portion of the liability for vested vacation leave benefits attributed to the Town's governmental funds is recorded as an expenditure and liability in the respective funds. The amount attributable to the proprietary fund is charged to expense and a corresponding liability.

NOTE 11 DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by an insurance company. 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 12 AGREEMENTS WITH DEVELOPERS

The Burgess and Commissioners entered into agreements with several real estate developers, under which the Town is the beneficiary of certain letters of credit and secured obligations of the developers. The letters secure the performance of the developers with respect to the purchase of water taps, installation of curbs, water lines, paving, etc. in new developments within the Town.

NOTE 13 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 the Local Government Insurance Trust (LGIT), a public entity risk pool currently operating as a common risk management and insurance program for certain State of Maryland local governments. The Town has all of its insurance coverage, except for employee health care and workers' compensation, with LGIT.

The Town carries employee health care coverage with a private insurer. Workers' compensation is through the Injured Workers Insurance Fund.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14 CONDUIT DEBT OBLIGATIONS

The Town has issued Economic Development Revenue Bonds to provide assistance to the Walkersville Volunteer Rescue Company No. 24 (Company) for the acquisition and construction of facilities deemed to be in the public interest. 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 Company served by the bond issuance. Neither the Burgess and Commissioners of Walkersville, 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. During FY 2008 the Company refinanced the bonds with PNC Bank. As of June 30, 2014 the Economic Development Revenue Bonds outstanding had an aggregate principal amount payable of $1,538,534.

NOTE 15 MAINTENANCE AGREEMENTS

The Town entered into a contract for the maintenance of the Crum Road water tower effective September 1, 2004. The contract requires an annual payment of $34,118 for the first three years, a base annual payment of $11,026 for the next three years, and beginning in 2010 and each third year thereafter, the fee will be adjusted to reflect the current cost of service, never exceeding a 5% increase or decrease. The contract is cancelable at any time. Total expense under this contract for the year ended June 30, 2014 amounted to $13,070.

NOTE 15 MAINTENANCE AGREEMENTS (CONTINUED)

On July 12, 2006 the Town entered into an additional contract with the same vendor for the maintenance of the Heritage water tower. This contract requires annual payments of $46,310 for the first three years, a base annual payment of $15,242 for the next three years, and beginning in 2012 and each third year thereafter, the fee will be adjusted to reflect the current cost of service, never exceeding a 5% increase or decrease. The contract is cancelable at any time. Total expense under this contract for the year ended June 30, 2014 amounted to $16,918.

On September 5, 2007 the Town entered into a contract with the same vendor of the two maintenance agreements described above for the maintenance of the Discovery water tower. This contract will require annual payments of $42,211 for the first three years, a base annual payment of $12,045 for the next three years, and beginning in 2013 and each third year thereafter, the fee will be adjusted to reflect the current cost of service, never exceeding a 5% increase or decrease. This contract is cancelable at any time. Total expense under this contract for the year ended June 30, 2014 amounted to $13,858.

NOTE 16 INTERFUND RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "internal balances" or "due to/from other funds" and are the result of lending/borrowing arrangements outstanding at the end of the fiscal year.

Due to/from other funds

Receivable Fund	Payable Fund		Amount
Water	General	$	32,002

NOTE 17 OPERATING LEASES

During the year ended June 30, 2011, the Town entered into a lease for 209.7 acres of farm land with a farmer for $160 per acre. The lease began January 1, 2011 and ended December 31, 2011 with a possible year to year extension of up to five years at the sole discretion of the Town. The lease was extended through December 31, 2012.

Due to the sale of an additional 9.7 acres, a new lease was entered into on October 17, 2012. The lease was for a term beginning on January 1, 2013 and ending on December 31, 2013 with a possible year to year extension of up to 3 years at the sole discretion of the Town. The lease was extended through December 31, 2014. The annual rental income from this lease amounts to $32,000.

NOTE 18 SUBSEQUENT EVENTS

The Town has evaluated events and transactions subsequent to June 30, 2014 through November 12, 2014, 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, 2014 through November 12, 2014 that require recognition or disclosure in the financial statements.

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
General Fund - Statement of Revenues and Expenditures – Budget and Actual
Year Ended June 30, 2014
(Unaudited)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Local property taxes and interest				
Real property	$ 826,359	$ 826,359	$ 819,740	$ (6,619)
Personal property	277,640	277,640	318,055	40,415
Penalties and interest	10,000	10,000	8,975	(1,025)
	1,113,999	1,113,999	1,146,770	32,771
Licenses and permits				
Traders	3,000	3,000	6,506	3,506
Alcoholic beverages	2,000	2,000	-	(2,000)
Planning and zoning	4,000	4,000	10,889	6,889
	9,000	9,000	17,395	8,395
Grants and shared taxes				
State of Maryland				
Admissions	40,000	40,000	45,629	5,629
Highway tax	164,924	164,924	162,581	(2,343)
Grant for police protection	30,961	30,961	30,892	(69)
Program Open Space grant	78,430	78,430	3,600	(74,830)
Frederick County				
Income tax	668,705	668,705	720,356	51,651
Grant in lieu of property taxes	1,030	1,030	1,030	-
Tax equity program	701,903	701,903	701,903	-
	1,685,953	1,685,953	1,665,991	(19,962)
Other Revenue				
Interest	24,500	24,500	22,190	(2,310)
Franchise fees	60,000	60,000	72,331	12,331
Rent	54,000	54,000	56,165	2,165
Contributions and donations	6,500	6,500	7,927	1,427
Mortgage interest and principal payments	19,220	19,220	31,680	12,460
Recycling center	5,600	5,600	6,503	903
Other	1,000	1,000	20,407	19,407
	170,820	170,820	217,203	46,383
Total Revenues	2,979,772	2,979,772	3,047,359	67,587

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
General Fund - Statement of Revenues and Expenditures – Budget and Actual
Year Ended June 30, 2014
(Unaudited)

(Continued)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
EXPENDITURES				
General Government				
Legislative				
Town Council				
Commissioners' salaries	$ 18,000	$ 18,000	$ 18,000	$ -
Other				
Salaries	207,600	207,600	200,425	7,175
Operating expenses	12,000	12,000	9,958	2,042
Training, meetings, and travel	6,010	6,010	4,776	1,234
	243,610	243,610	233,159	10,451
Executive				
Burgess' salary	12,500	12,500	12,500	-
Financial administration				
Independent auditing	9,500	9,500	8,500	1,000
Operating expenses	6,500	6,500	3,733	2,767
	16,000	16,000	12,233	3,767
Legal expenses	8,000	8,000	7,254	746
Planning and zoning	80,385	80,385	64,085	16,300
Municipal buildings				
Utilities	52,985	52,985	58,750	(5,765)
Repairs and maintenance	40,000	40,000	28,920	11,080
	92,985	92,985	87,670	5,315
Other				
Dues	7,840	7,840	8,084	(244)
Economic Development Commission	15,000	15,000	8,301	6,699
County property taxes	6,000	6,000	4,695	1,305
	28,840	28,840	21,080	7,760
Total General Government	482,320	482,320	437,981	44,339
Public Safety				
Police and traffic control	515,900	515,900	508,560	7,340
Code enforcement	9,350	9,350	10,228	(878)
Volunteer company contributions:				
Fire department	12,500	12,500	12,500	-
Ambulance service	12,500	12,500	12,500	-
Total Public Safety	550,250	550,250	543,788	6,462
Public Works				
Streets, roadways, and alleys				
Salaries	280,500	280,500	257,568	22,932
Maintenance	40,000	40,000	51,362	(11,362)
Parts, tools, and supplies	6,000	6,000	8,578	(2,578)
Truck and equipment	45,000	45,000	74,979	(29,979)
Street lighting	72,000	72,000	51,481	20,519
Safety	2,000	2,000	2,556	(556)
Uniforms/Boots	6,000	6,000	6,428	(428)
Total Public Works	451,500	451,500	452,952	(1,452)
Waste Collection and Disposal	273,460	273,460	241,412	32,048
Recreation and Culture				
Parks and recreation	40,000	40,000	34,137	5,863
Parks - mowing	65,000	65,000	63,482	1,518
Heritage Building	2,000	2,000	-	2,000
Heritage Manor House	10,000	10,000	3,593	6,407
Senior citizens	13,000	13,000	10,450	2,550
Program Open Space grant expense	87,145	87,145	3,300	83,845
Total Recreation and Culture	217,145	217,145	114,962	102,183

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
General Fund - Statement of Revenues and Expenditures – Budget and Actual
Year Ended June 30, 2014
(Unaudited)

(Continued)

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Non-Departmental				
Retirement and pension costs	50,350	50,350	51,619	(1,269)
Workmen's compensation	19,540	19,540	11,131	8,409
Payroll taxes	46,500	46,500	42,341	4,159
Medical insurance	106,400	106,400	105,070	1,330
Insurance	16,000	16,000	12,042	3,958
Community contributions	1,250	1,250	1,440	(190)
Security measures	5,000	5,000	-	5,000
Other	5,500	5,500	9,044	(3,544)
Total Non-Departmental	250,540	250,540	232,687	17,853
Capital Outlay				
Machinery and equipment	94,800	94,800	19,723	75,077
GIS - engineering	10,000	10,000	-	10,000
Paving projects	164,924	164,924	-	164,924
Available for capital projects	378,833	378,833	-	378,833
Park projects	66,000	66,000	2,614	63,386
Design of Fountain Rock connection	1,000	1,000	-	1,000
Building improvements	10,000	10,000	-	10,000
HFP building maintenance	3,000	3,000	-	3,000
Glade Road design	-	-	8,438	(8,438)
Gateway to Walkersville	20,000	20,000	-	20,000
Watershed development	6,000	6,000	-	6,000
Total Capital Outlay	754,557	754,557	30,775	723,782
Total Expenditures	2,979,772	2,979,772	2,054,557	925,215
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 992,802	$ 992,802
FUND BALANCES - BEGINNING OF YEAR			5,026,417	
FUND BALANCES - END OF YEAR			$ 6,019,219	

BURGESS AND COMMISSIONERS OF WALKERSVILLE, MD
Water Department Fund - Statement of Revenues and Expenditures – Budget and Actual
Year Ended June 30, 2014
(Unaudited)

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget
	Original	Final	Actual Amounts	- Positive (Negative)
REVENUES				
Operating Revenues				
Charges for service	$ 839,000	$ 839,000	$ 837,924	$ (1,076)
Meter service charge	2,000	2,000	1,310	(690)
Penalties and interest	15,000	15,000	15,736	736
Wireless tower income	100,800	100,800	130,070	29,270
Other income	500	500	132	(368)
Total Operating Revenues	957,300	957,300	985,172	27,872
Non-operating Revenues				
Interest income	2,000	2,000	954	(1,046)
TOTAL REVENUES	959,300	959,300	986,126	26,826
EXPENSES				
Operating Expenses				
Salaries	223,870	223,870	208,696	15,174
Electricity	60,000	60,000	54,302	5,698
Distribution maintenance	95,000	95,000	118,497	(23,497)
Parts, supplies, and tools	2,500	2,500	1,386	1,114
Chemicals	160,000	160,000	144,406	15,594
Sewer treatment fees	125,706	125,706	99,384	26,322
Other operating expenses	39,000	39,000	21,688	17,312
Audit	9,500	9,500	8,500	1,000
Legal fees	1,000	1,000	-	1,000
Administrative expenses	20,210	20,210	14,951	5,259
Pension plan	19,000	19,000	19,567	(567)
Workmen's compensation insurance	10,460	10,460	5,774	4,686
Payroll taxes	17,500	17,500	15,352	2,148
Property insurance	16,000	16,000	11,827	4,173
Medical insurance	60,000	60,000	57,831	2,169
Safety	1,500	1,500	877	623
Miscellaneous	8,000	8,000	20,067	(12,067)
Total Operating Expenses	869,246	869,246	803,105	66,141
Capital Outlay				
Equipment	34,054	34,054	79,720	(45,666)
Water line improvements	56,000	56,000	321,520	(265,520)
Total Capital Outlay	90,054	90,054	401,240	(311,186)
Total Expenses	959,300	959,300	1,204,345	(245,045)
NET (LOSS) BUDGETARY BASIS	$ -	$ -	(218,219)	$ (218,219)
ADJUSTMENT TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) BASIS				
To adjust for depreciation			(151,725)	
To adjust for capital outlay			401,240	
NET INCOME GAAP BASIS			$ 31,296	