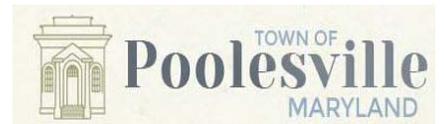


**THE TOWN OF POOLESVILLE, MARYLAND**

**BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**



**CPAs &  
BUSINESS  
ADVISORS**

[WWW.RLHCPA.COM](http://WWW.RLHCPA.COM)

**THE TOWN OF POOLESVILLE, MARYLAND**

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## INDEPENDENT AUDITORS' REPORT

October 27, 2016

The Commissioners of Poolesville  
The Town of Poolesville, Maryland  
Poolesville, Maryland

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Town of Poolesville, Maryland (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Poolesville, Maryland, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Effect of Adopting New Accounting Standard**

As discussed in Notes 1 and 2, the Town implemented new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, that impacted the financial statement disclosures for the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

### **Correction of Error**

As discussed in Note 16 to the financial statements, the beginning general fund balance has been restated to correct an error related to long-term accounts payable being recorded in the general fund. Our opinion is not modified with respect to this matter.

### **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 3 through 10 and 47 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.

**RLH CPAs & Business Advisors, LLC**

Frederick, Maryland

**THE TOWN OF POOLESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**UNAUDITED**

This discussion and analysis of The Town of Poolesville, Maryland's (the "Town") financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements. The emphasis or discussion about these statements will be on current year data.

**Financial Highlights**

1. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$39,370,386. Of this amount, \$3,120,028 may be used to meet the Town's ongoing obligations to citizens and creditors.
2. The Town's total net position increased by \$2,684,227, which was primarily a result of contributed infrastructure of \$1,993,132 and \$608,744 from developers in the governmental and business type activities, respectively.
3. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,608,440, an increase of \$685,796 in comparison to the prior year. \$2,507,666 is considered spendable and unrestricted, \$828,261 of which is unassigned and is available for spending at the Town's discretion.
4. The Town's total debt decreased by \$257,895 during the current fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town'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 financial statements.

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

The statement of net position presents information on all the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a

**THE TOWN OF POOLESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**UNAUDITED**

useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors to consider are discussed later in this report.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, parks and recreation, and community development. The business-type activities of the Town include water and sewer operations.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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 inflow 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 effect 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 maintains one governmental fund, which is the General Fund.

The Town adopts an annual appropriated budget for its General and Water and Sewer Funds. A budgetary comparison statement for the General Fund has been provided to demonstrate compliance with the budget and can be found in the financial statements as required supplementary information.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**UNAUDITED**

**Proprietary Funds.** The Town maintains one type of proprietary fund: the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The Town uses enterprise funds to account for its water distribution and sanitary sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**Notes to Basic 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.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$39,370,386 at the close of the most recent fiscal year.

By far, the largest portion of the Town's net position (91%) reflects its investment in capital assets (e.g. land, buildings, equipment, and construction in progress), less any related debt and other long-term liabilities used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**UNAUDITED**

The following analysis focuses on the net position and changes in net position of the Town's governmental and business type activities:

**CONDENSED STATEMENTS OF NET POSITION**  
**JUNE 30, 2016 AND 2015**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>						
Current and Other Assets	\$ 2,631,627	\$ 1,971,224	\$ 1,166,716	\$ 1,076,728	\$ 3,798,343	\$ 3,047,952
Capital Assets, Net	<u>17,894,995</u>	<u>16,251,197</u>	<u>21,053,413</u>	<u>21,032,154</u>	<u>38,948,408</u>	<u>37,283,351</u>
<b>Total Assets</b>	<u><b>20,526,622</b></u>	<u><b>18,222,421</b></u>	<u><b>22,220,129</b></u>	<u><b>22,108,882</b></u>	<u><b>42,746,751</b></u>	<u><b>40,331,303</b></u>
<b>Liabilities</b>						
Current Liabilities	79,922	85,541	443,095	442,266	523,017	527,807
Non-Current Liabilities	<u>75,303</u>	<u>88,490</u>	<u>2,778,045</u>	<u>3,028,847</u>	<u>2,853,348</u>	<u>3,117,337</u>
<b>Total Liabilities</b>	<u><b>155,225</b></u>	<u><b>174,031</b></u>	<u><b>3,221,140</b></u>	<u><b>3,471,113</b></u>	<u><b>3,376,365</b></u>	<u><b>3,645,144</b></u>
<b>Net Position</b>						
Net Investment in Capital Assets	17,757,900	16,251,197	18,023,210	17,756,207	35,781,110	34,007,404
Restricted	100,774	148,644	368,474	426,387	469,248	575,031
Unrestricted	<u>2,512,723</u>	<u>1,648,549</u>	<u>607,305</u>	<u>455,175</u>	<u>3,120,028</u>	<u>2,103,724</u>
<b>Total Net Position</b>	<u><b>\$ 20,371,397</b></u>	<u><b>\$ 18,048,390</b></u>	<u><b>\$ 18,998,989</b></u>	<u><b>\$ 18,637,769</b></u>	<u><b>\$ 39,370,386</b></u>	<u><b>\$ 36,686,159</b></u>

**THE TOWN OF POOLESVILLE, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016  
UNAUDITED**

**CONDENSED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 233,098	\$ 160,411	\$ 1,306,533	\$ 1,312,949	\$ 1,539,631	\$ 1,473,360
Operating Grants and Contributions	242,124	149,082	-	-	242,124	149,082
Capital Grants and Contributions	2,147,244	1,800,971	616,244	434,076	2,763,488	2,235,047
<i>General Revenues</i>						
Taxes	2,828,631	2,352,087	-	-	2,828,631	2,352,087
Grants, Contributions, and Franchise Fees - Unrestricted	272,681	269,791	-	-	272,681	269,791
Interest Income and Rents	180,517	182,359	7,879	5,374	188,396	187,733
Miscellaneous	18,177	10,604	12,391	201,097	30,568	211,701
<b>Total Revenues</b>	<u>5,922,472</u>	<u>4,925,305</u>	<u>1,943,047</u>	<u>1,953,496</u>	<u>7,865,519</u>	<u>6,878,801</u>
<b>Expenses</b>						
General Government	1,078,770	1,152,968	-	-	1,078,770	1,152,968
Public Safety	44,738	45,933	-	-	44,738	45,933
Public Works, Recreation, and Parks	1,758,926	1,995,773	-	-	1,758,926	1,995,773
Water and Sewer Services	-	-	2,298,858	2,311,626	2,298,858	2,311,626
<b>Total Expenses</b>	<u>2,882,434</u>	<u>3,194,674</u>	<u>2,298,858</u>	<u>2,311,626</u>	<u>5,181,292</u>	<u>5,506,300</u>
<b>Excess (Deficiency) Before Transfers</b>	<b>3,040,038</b>	<b>1,730,631</b>	<b>(355,811)</b>	<b>(358,130)</b>	<b>2,684,227</b>	<b>1,372,501</b>
Transfers	<u>(717,031)</u>	<u>(743,257)</u>	<u>717,031</u>	<u>743,257</u>	<u>-</u>	<u>-</u>
<b>Changes in Net Position</b>	<b><u>\$ 2,323,007</u></b>	<b><u>\$ 987,374</u></b>	<b><u>\$ 361,220</u></b>	<b><u>\$ 385,127</u></b>	<b><u>\$ 2,684,227</u></b>	<b><u>\$ 1,372,501</u></b>

The Town has sufficient funds to meet requirements for cash outflows for the next fiscal year as well as capital improvements in governmental activities, and will utilize interfund transfers between activities as needed. At the end of the current fiscal year, the Town is able to report positive balances in all categories of net position in the governmental activities and in the business-type activities.

**Governmental Activities.** Governmental activities increased the Town's net position by \$2,323,007. The increase is primarily related to net investments in capital assets that were contributed related to the Kettler and Winchester developments.

**Business-Type Activities.** Business-type activities increased the Town's net position by \$361,220. The water and sewer fund charges for services do not cover the cost of operations. As a result the general fund transferred \$717,031 to assist with capital improvements, debt

**THE TOWN OF POOLESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**UNAUDITED**

service, and payroll requirements. In addition, the \$608,744 of contributed capital assets also increased the net position.

**Governmental Funds Financial Analysis**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Governmental Funds.** The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's General Fund reported an ending fund balance of \$2,608,440, an increase of \$685,796 in comparison with the prior year. 96% (\$2,507,666) of this total amount constitutes spendable, unrestricted fund balances, \$1,679,405 of which has been assigned by the Town (as discussed in the financial statement notes) and \$828,261 of which is available for spending at the Town's discretion. As a measure of the General Fund's liquidity, it may be useful to compare spendable, unrestricted fund balances to total fund expenditures.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise fund at the end of the year amounted to \$607,305. The enterprise fund had an increase in net position for the year of \$361,220. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

**General Fund Budgetary Highlights**

During the year, General Fund revenues and expenditures differences from budgetary estimates resulted in a negative variance in fund balance of \$75,084 after net transfers. The figures outlined in the budget will differ from the actual figures due to the fact that the figures in the budget are our best guess estimates. Many of our revenue streams will vary upon interest rates, income variables, grants, utility usage and County policies. The same structure is apparent on the expenditure side.

**THE TOWN OF POOLESVILLE, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016  
UNAUDITED**

The following is a discussion regarding some of the more significant differences between the Town's final budget and actual results:

Overall, revenue streams were up slightly by \$62,179. This was mainly due to increases in intergovernmental (\$93,829), and decreases in taxes (\$34,616). In total, expenditures exceeded the budgeted estimates by \$21,389, mostly due to general government expenditures and recreation and parks expenditures exceeding the budgeted amounts by \$41,014 and \$31,981, respectively, and capital outlay expenditures being \$52,503 under the budgeted amounts.

The budgetary comparison schedule can be found in the financial statements' required supplementary information.

**Capital Asset and Debt Administration**

**Capital Assets.** The Town's capital assets (property and equipment) for its governmental and business-type activities as of June 30, 2016, amounted to \$38,948,408 (net of accumulated depreciation). These capital assets include land, buildings, water/sewer system improvements, machinery and equipment, park facilities, and vehicles. The total net increase in the Town's capital assets for the current fiscal year was \$1,665,057, as further detailed in the notes to financial statements.

Major capital asset events during the current fiscal year included the following:

	<u>Amount</u>
Kettler paving, grading, and storm drains	\$ 951,947
Rehabilitation of 500K gallon water tank	\$ 110,032
West Willard sidewalks	\$ 145,713
Winchester landscaping	\$ 140,735
Winchester paving and storm drains	\$ 900,450
Winchester water and sewer	\$ 608,744

The Town has entered into a contract to replace the outdated water communication systems for the entire water system. The full amount of the contract is \$135,566, with \$13,557 recognized as construction in progress during the year ended June 30, 2016, and the remaining \$122,009 was outstanding as of June 30, 2016.

Additional information on the Town's capital assets can be found in the financial statements and related notes.

**THE TOWN OF POOLESVILLE, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016  
UNAUDITED**

**Outstanding Debt as of June 30, 2016.**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
General Obligation Bonds	<u>\$ -0-</u>	<u>\$ 3,028,847</u>	<u>\$ 3,028,847</u>

Additional information on the Town's long-term debt can be found in the financial statements and related notes.

**Economic Factors, Next Year's Budgets and Rates**

The following factors were considered in preparing the Town's budget for the 2016-17 fiscal year:

1. Population will increase slightly with some new growth expected.
2. The current tax rate will increase from \$0.17 per \$100.00 assessed valuation to \$0.1756 per \$100 of assessed value.
3. Many of the operational accounts funding remained constant with only a few increases.
4. Increased funding in salaries and benefits due to additional staffing.

As a result of a Supreme Court decision in the *Maryland State Comptroller of the Treasury vs. Brian Wynne* case, Maryland municipalities will be required to pay back a portion of local income tax received from Maryland residents that earned income out of the state, but still paid the County "piggyback" tax on that income. Municipalities are affected by the Supreme Court decision because they receive a portion of the County "piggyback" tax. This will not impact fiscal year 2016-17 directly as the refunds will begin in 2019, however, it is something the Town will need to consider during the budget process. The Town's liability is expected to be at least \$27,185.

**Request for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to The Town of Poolesville, P.O. Box 158, Poolesville, MD 20837.

## **BASIC FINANCIAL STATEMENTS**

**THE TOWN OF POOLESVILLE, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 157,826	\$ 39,619	\$ 197,445
Accounts Receivable	19,069	48,794	67,863
Taxes Receivable	91,522	-	91,522
Grants Receivable	84,001	-	84,001
Pooled Investments	2,161,790	388,216	2,550,006
Pooled Investments - Restricted	34,639	110,757	145,396
Due from Other Governments	11,006	-	11,006
Unbilled Services	-	281,117	281,117
Inventory	-	32,444	32,444
Current Portion of Note Receivable	-	939	939
<b>TOTAL CURRENT ASSETS</b>	<b><u>2,559,853</u></b>	<b><u>901,886</u></b>	<b><u>3,461,739</u></b>
<b>NON-CURRENT ASSETS</b>			
Note Receivable	-	7,113	7,113
Pooled Investments - Restricted	71,774	257,717	329,491
Property and Equipment			
Construction in Progress	70,606	508,515	579,121
Land and Land Rights	2,600,931	119,429	2,720,360
Buildings and Improvements	5,903,560	-	5,903,560
Equipment	1,670,511	733,610	2,404,121
Infrastructure	17,995,942	35,748,873	53,744,815
Vehicles	376,885	124,278	501,163
	<u>28,618,435</u>	<u>37,234,705</u>	<u>65,853,140</u>
Less: Accumulated Depreciation	10,723,440	16,181,292	26,904,732
Net Property and Equipment	<u>17,894,995</u>	<u>21,053,413</u>	<u>38,948,408</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b><u>17,966,769</u></b>	<b><u>21,318,243</u></b>	<b><u>39,285,012</u></b>
<b>TOTAL ASSETS</b>	<b><u>20,526,622</u></b>	<b><u>22,220,129</u></b>	<b><u>42,746,751</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable and Accrued Expenses	74,283	169,869	244,152
Accrued Interest Payable	-	22,424	22,424
Current Portion of Bonds Payable	-	250,802	250,802
Payable from Restricted Assets:			
Accounts Payable	5,639	-	5,639
<b>TOTAL CURRENT LIABILITIES</b>	<b>79,922</b>	<b>443,095</b>	<b>523,017</b>
<b>NON-CURRENT LIABILITIES</b>			
Accounts Payable	75,303	-	75,303
Bonds Payable	-	2,778,045	2,778,045
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>75,303</b>	<b>2,778,045</b>	<b>2,853,348</b>
<b>TOTAL LIABILITIES</b>	<b>155,225</b>	<b>3,221,140</b>	<b>3,376,365</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-
<b>NET POSITION</b>			
Net Investment in Capital Assets	17,757,900	18,023,210	35,781,110
Restricted	100,774	368,474	469,248
Unrestricted	2,512,723	607,305	3,120,028
<b>TOTAL NET POSITION</b>	<b>\$ 20,371,397</b>	<b>\$ 18,998,989</b>	<b>\$ 39,370,386</b>

See Accompanying Notes

# THE TOWN OF POOLESVILLE, MARYLAND

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Activities</b>							
General Government	\$ 1,078,770	\$ 99,572	\$ -	\$ -	\$ (979,198)	\$ -	\$ (979,198)
Public Safety	44,738	-	-	26,484	(18,254)	-	(18,254)
Public Works, Recreation, and Parks	1,758,926	133,526	242,124	2,120,760	737,484	-	737,484
<b>Total Governmental Activities</b>	<b>2,882,434</b>	<b>233,098</b>	<b>242,124</b>	<b>2,147,244</b>	<b>(259,968)</b>	<b>-</b>	<b>(259,968)</b>
<b>Business-Type Activities</b>							
Water and Sewer Services	2,298,858	1,306,533	-	616,244	-	(376,081)	(376,081)
<b>Total Business-Type Activities</b>	<b>2,298,858</b>	<b>1,306,533</b>	<b>-</b>	<b>616,244</b>	<b>-</b>	<b>(376,081)</b>	<b>(376,081)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,181,292</b>	<b>\$ 1,539,631</b>	<b>\$ 242,124</b>	<b>\$ 2,763,488</b>	<b>(259,968)</b>	<b>(376,081)</b>	<b>(636,049)</b>
<b>GENERAL REVENUES</b>							
Taxes							
Income Taxes					1,527,901	-	1,527,901
Real Estate Taxes					1,252,599	-	1,252,599
Personal Property Taxes					48,131	-	48,131
Grants, Contributions, and Franchise Fees Not							
Restricted to Specific Programs					272,681	-	272,681
Interest Income and Rents					180,517	7,879	188,396
Net Transfers					(717,031)	717,031	-
Miscellaneous					18,177	12,391	30,568
<b>TOTAL GENERAL REVENUES</b>					<b>2,582,975</b>	<b>737,301</b>	<b>3,320,276</b>
<b>CHANGES IN NET POSITION</b>							
Net Position - Beginning of Year					18,048,390	18,637,769	36,686,159
<b>NET POSITION - END OF YEAR</b>					<b>\$ 20,371,397</b>	<b>\$ 18,998,989</b>	<b>\$ 39,370,386</b>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2016**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 157,826	\$ 157,826
Pooled Investments	2,161,790	2,161,790
Pooled Investments - Restricted	106,413	106,413
Accounts Receivable	19,069	19,069
Taxes Receivable	91,522	91,522
Grants Receivable	84,001	84,001
Due from Other Governments	11,006	11,006
<b>TOTAL ASSETS</b>	<u><b>2,631,627</b></u>	<u><b>2,631,627</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>\$ 2,631,627</b></u>	<u><b>\$ 2,631,627</b></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 12,491	\$ 12,491
Payable from Restricted Assets:		
Accounts Payable and Accrued Expenses	5,639	5,639
<b>TOTAL LIABILITIES</b>	<u><b>18,130</b></u>	<u><b>18,130</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Revenues	5,057	5,057
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u><b>5,057</b></u>	<u><b>5,057</b></u>
<b>FUND BALANCES</b>		
Restricted	100,774	100,774
Assigned	1,679,405	1,679,405
Unassigned	828,261	828,261
<b>TOTAL FUND BALANCES</b>	<u><b>2,608,440</b></u>	<u><b>2,608,440</b></u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u><b>\$ 2,631,627</b></u>	<u><b>\$ 2,631,627</b></u>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2016**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 2,608,440**

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

Property tax revenues are recognized in the period for which levied rather than when "available." A portion of the property tax revenues are not available and therefore are not reported in the fund financial statements. 5,057

Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements. 17,894,995

Long-term liabilities, including bonds payable and interest payable, are not due and payable in the current period, and therefore, are not reported in the funds. (137,095)

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 20,371,397**

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Taxes	\$ 2,847,369	\$ 2,847,369
Intergovernmental	607,593	607,593
Charges for Services	210,399	210,399
Licenses and Permits	84,023	84,023
Interest Income and Rents	180,517	180,517
Miscellaneous	18,177	18,177
<b>TOTAL REVENUES</b>	<b>3,948,078</b>	<b>3,948,078</b>
<b>EXPENDITURES</b>		
General Government	1,373,248	1,373,248
Public Safety	20,884	20,884
Public Works	647,144	647,144
Recreation and Parks	103,156	103,156
Capital Outlays	400,819	400,819
<b>TOTAL EXPENDITURES</b>	<b>2,545,251</b>	<b>2,545,251</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,402,827</b>	<b>1,402,827</b>
<b>OTHER FINANCING USES</b>		
Net Transfers	(717,031)	(717,031)
<b>TOTAL OTHER FINANCING USES</b>	<b>(717,031)</b>	<b>(717,031)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>685,796</b>	<b>685,796</b>
Fund Balances - Beginning of Year, As Restated	1,922,644	1,922,644
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 2,608,440</b>	<b>\$ 2,608,440</b>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 685,796</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.</p>	
Add: Capital Outlays	400,819
Less: Depreciation Expense	(738,002)
<p>Tax revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.</p>	
	(18,738)
<p>Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the governmental funds.</p>	
	<u>1,993,132</u>
<b>CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 2,323,007</u></u></b>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

**JUNE 30, 2016**

	Water and Sewer Fund	Total Proprietary Funds
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 39,619	\$ 39,619
Accounts Receivable	48,794	48,794
Pooled Investments	388,216	388,216
Pooled Investments - Restricted	110,757	110,757
Unbilled Services	281,117	281,117
Inventory	32,444	32,444
Current Portion of Note Receivable	939	939
<b>TOTAL CURRENT ASSETS</b>	<b>901,886</b>	<b>901,886</b>
<b>NON-CURRENT ASSETS</b>		
Note Receivable	7,113	7,113
Pooled Investments - Restricted	257,717	257,717
Property and Equipment		
Construction in Progress	508,515	508,515
Land and Land Rights	119,429	119,429
Equipment	733,610	733,610
Infrastructure	35,748,873	35,748,873
Vehicles	124,278	124,278
	37,234,705	37,234,705
Less: Accumulated Depreciation	16,181,292	16,181,292
Net Property and Equipment	21,053,413	21,053,413
<b>TOTAL NON-CURRENT ASSETS</b>	<b>21,318,243</b>	<b>21,318,243</b>
<b>TOTAL ASSETS</b>	<b>22,220,129</b>	<b>22,220,129</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	-	-

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	169,869	169,869
Accrued Interest Payable	22,424	22,424
Current Portion of Bonds Payable	250,802	250,802
<b>TOTAL CURRENT LIABILITIES</b>	<u><b>443,095</b></u>	<u><b>443,095</b></u>
<b>NON-CURRENT LIABILITIES</b>		
Bonds Payable	<u>2,778,045</u>	<u>2,778,045</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u><b>2,778,045</b></u>	<u><b>2,778,045</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>3,221,140</b></u>	<u><b>3,221,140</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	18,023,210	18,023,210
Restricted	368,474	368,474
Unrestricted	607,305	607,305
<b>TOTAL NET POSITION</b>	<u><u><b>\$ 18,998,989</b></u></u>	<u><u><b>\$ 18,998,989</b></u></u>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
<b>OPERATING REVENUES</b>		
Charges for Services	\$ 1,128,224	\$ 1,128,224
<b>OPERATING EXPENSES</b>		
Water		
Personnel Services	221,228	221,228
Outside Services and Testing	29,199	29,199
Utilities and Chemicals	73,815	73,815
Repairs and Maintenance	91,586	91,586
Administrative and General	156,269	156,269
	<u>572,097</u>	<u>572,097</u>
Sewer		
Personnel Services	222,324	222,324
Sludge Hauling	101,728	101,728
Outside Services and Testing	70,670	70,670
Utilities and Chemicals	184,543	184,543
Repairs and Maintenance	87,038	87,038
Administrative and General	99,621	99,621
	<u>765,924</u>	<u>765,924</u>
Inflow and Infiltration	<u>35,151</u>	<u>35,151</u>
Depreciation	<u>849,104</u>	<u>849,104</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>2,222,276</b></u>	<u><b>2,222,276</b></u>
<b>OPERATING LOSS</b>	<u><b>(1,094,052)</b></u>	<u><b>(1,094,052)</b></u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Impact and Tap Fees	178,309	178,309
Interest Expense	(76,582)	(76,582)
Interest Income	7,879	7,879
Other Revenues	12,391	12,391
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u><b>121,997</b></u>	<u><b>121,997</b></u>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Water and Sewer Fund	Total Proprietary Funds
<b>NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>(972,055)</b>	<b>(972,055)</b>
Net Transfers	717,031	717,031
Capital Contributions	616,244	616,244
<b>CHANGES IN NET POSITION</b>	<b>361,220</b>	<b>361,220</b>
Net Position - Beginning of Year	18,637,769	18,637,769
<b>NET POSITION - END OF YEAR</b>	<b>\$ 18,998,989</b>	<b>\$ 18,998,989</b>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Inflows		
Cash Received from Customers	\$ 1,162,563	\$ 1,162,563
Outflows		
Cash Paid to Suppliers	1,032,988	1,032,988
Cash Paid to Employees	443,552	443,552
	<u>1,476,540</u>	<u>1,476,540</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u>(313,977)</u></b>	<b><u>(313,977)</u></b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Inflows		
Cash Received from Other Funds	717,031	717,031
Other Revenues	12,391	12,391
	<u>729,422</u>	<u>729,422</u>
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b><u>729,422</u></b>	<b><u>729,422</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Inflows		
Capital Contributions and Grants	7,500	7,500
Impact and Tap Fees	178,309	178,309
Principal Received on Loan Repayments	902	902
	<u>186,711</u>	<u>186,711</u>
Outflows		
Interest Paid	73,556	73,556
Purchase of Capital Assets	171,844	171,844
Payments on Long-Term Debt	247,100	247,100
	<u>492,500</u>	<u>492,500</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(305,789)</u></b>	<b><u>(305,789)</u></b>

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Water and Sewer Fund	Total Proprietary Funds
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Inflows		
Interest Received	7,879	7,879
	7,879	7,879
Outflows		
Purchase of Unrestricted Investments	88,036	88,036
	88,036	88,036
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(80,157)</b>	<b>(80,157)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>29,499</b>	<b>29,499</b>
Cash and Cash Equivalents - Beginning of Year (As Restated)	10,120	10,120
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 39,619</b>	<b>\$ 39,619</b>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
The Town received sewer and water related infrastructure from developers	\$ 608,744	\$ 608,744

See Accompanying Notes

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

Reporting Entity

The Town of Poolesville, Maryland (the “Town”) was incorporated in 1867 and adopted its present charter March 15, 1982, as amended. The Town operates under a Commissioner supervised form of government and provides the following services as authorized by its charter: general administrative, public safety and enforcement, streets, storm sewer, recreation and parks, and water and sewer services.

The Town’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no separate component units of the Town.

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented by the Town during the year ended June 30, 2016 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 72, Fair Value Measurement and Application - The objective of this statement is to provide guidance for determining fair value measurements for financial reporting purposes, and guidance for applying fair value to certain investments, disclosures related to all fair value measurements. The provisions of this statement were effective for periods beginning after June 15, 2015, and were implemented by the Town as of July 1, 2015 and reflected on the financial statements disclosures, as further detailed in Note 2. Also, as disclosed in Note 14 all of the pooled funds are now considered investments instead of a portion being presented as cash and cash equivalents.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68* - The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this statement were effective for periods beginning after June 15, 2015, and were implemented by the Town as of July 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The objective of this statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP) to improve financial reporting and usefulness of financial statement information. The provisions of this statement were effective for periods beginning after June 15, 2015, and were implemented by the Town as of July 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans* - The objective of this statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for periods beginning after December 15, 2015, and were early implemented by the Town as of July 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 79, *Certain Investment Pools and Pool Participants* - The objective of this statement is to improve accounting and financial reporting for external investment pools and their participants resulting from changes in the regulatory provisions significantly amended in 2014 by the Securities and Exchange Commission, particularly those in relation to the Investment Company Act of 1940, Rule 2a7. The provisions of this statement are effective for periods beginning after December 15, 2015, and were early implemented by the Town as of July 1, 2015 with no effect on financial statements presentation or disclosure.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* - The objective of this statement is to improve accounting and financial reporting by clarifying the financial statement presentation requirements for certain component units, specifically blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this statement are effective for periods beginning after June 15, 2016, and were early implemented by the Town as of July 1, 2015, with no effect on financial statements presentation or disclosure.

GASB Statement No. 81, *Irrevocable Split Interest Agreements* - The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance when the government is a beneficiary of the agreement. The provisions of this Statement are effective for periods beginning after December 15, 2016, and were early implemented by the Town as of July 1, 2015, with no effect on financial statements presentation or disclosure.

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for periods beginning after June 15, 2016, and were early implemented by the Town as of July 1, 2015, with no effect on financial statements presentation or disclosure.

*Basic Financial Statements - Government-Wide Statements*

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund (reporting the Town's major funds) financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's general administrative, public safety and enforcement, streets, storm sewer, and recreation and parks services are classified as governmental activities. The Town's water and sewer services are classified as business-type activities.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full-accrual, economic-resource basis, which recognizes all long-term assets, receivables, and deferred outflows of resources as well as long-term debt and obligations and deferred inflows of resources. The Town's net position is reported in three parts: invested in capital assets (net of related debt); restricted net position; and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities, unless internally designated for a specific future project.

The government-wide statement of activities reports both the gross and net cost per functional category (public works, recreation and parks, etc.), which are otherwise being supported by general government revenues (real estate and income taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues. The program revenues must be directly associated with the function or business-type activity. 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 activity, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other general revenues not restricted to specific program functions are reported instead as general revenues.

The net costs (by function or program) are normally covered by general revenue (property and income taxes, intergovernmental revenues, interest income, etc.). The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

*Basic Financial Statements - Fund Financial Statements*

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

For the determination of major funds, the Town utilizes various criteria such as percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Governmental Funds

Governmental funds are those through which most governmental functions of the Town are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets and deferred outflows of resources are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred inflows of resources are assigned to the fund from which they will be paid.

The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is a description of the Town's major governmental fund:

General Fund - The General Fund is the primary operating fund of the Town. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues for the Town's proprietary funds are charges for water and sewer services. Operating expenses for the Town's proprietary funds include personnel services, sludge hauling, outside services and testing, utilities and chemicals, repairs and maintenance, administrative and general, inflow and infiltration, and depreciation on property and equipment. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town's proprietary fund is classified as an enterprise fund. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the Town's major enterprise fund:

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Water and Sewer Fund - The Water and Sewer Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are partially financed through user charges.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when 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 eligible requirements imposed by the provider have been met.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as unearned revenues or deferred outflows of resources by the recipient.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, with a remaining maturity of three months or less when purchased, are considered to be cash equivalents. The carrying amount approximates estimated fair value because of the short maturity of those instruments.

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Unbilled Services

Unbilled customer service receivables for water consumption and related sewer charges are based upon the actual quantity of water used during the subsequent billing quarters or the previous year's respective billing quarters, depending on the availability of the related readings when unbilled services are estimated.

Deferred Revenue

In the governmental funds financial statements, taxes receivable that are not expected to be collected within the available period are recorded as deferred revenue in deferred inflow of resources.

Inventory

Inventories of materials and supplies are maintained in the Water and Sewer Fund. Materials and supplies are carried at cost using the first-in, first-out method and are subsequently charged to expenditures when consumed.

Capital Assets and Depreciation

Capital assets used in governmental fund type operations are accounted for in the government-wide financial statements, rather than in governmental funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition value on the date donated. Capital assets with a value of \$5,000 or more are capitalized by the Town. Capital assets are depreciated using the straight-line, full-year method over the following estimated useful lives:

Buildings and Improvements	10 - 40 years
Equipment	5 - 20 years
Infrastructure	20 - 50 years
Vehicles	5 years

Government-Wide Statements

In the government-wide financial statements, capital assets used in operations are accounted for as property and equipment. The Town elected to retroactively report all general infrastructure assets, including roads, bridges, and other infrastructure assets, at historical cost in a prior year. The Town has elected not to retroactively report intangible assets, including capital assets identified as having indefinite useful lives or being internally generated, prior to July 1, 2009. All intangible assets acquired subsequent to July 1, 2009 are reported at historical cost.

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Depreciation of all exhaustible capital assets is recorded as a direct expense in the statement of activities, with accumulated depreciation reflected in the statement of net position.

Additions are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of capital assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

*Interfund Activity*

Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after non-operating revenues/expenses in proprietary funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

The Water and Sewer Fund reimburses the General Fund for a percentage of salaries, wages, and related costs for General Fund personnel who perform general and administrative services for the Water and Sewer Fund.

*Net Position and Fund Balances*

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

*Net Investment in Capital Assets* - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

**THE TOWN OF POOLESVILLE, MARYLAND**  
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Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents the net position of the Town that is not restricted for any project or other purpose. However, these funds may be constrained for specific projects or purposes in the fund financial statements.

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable Fund Balance - This category represents amounts that are not in spendable form (such as inventory and long-term receivables) or are required to be maintained intact.

Restricted Fund Balance - This category represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance - This category represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. For committed fund balance, the Town's highest level of decision-making authority is the Commissioners. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is an ordinance.

Assigned Fund Balance - This category represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. For assigned fund balance, the Commissioners are authorized to assign amounts to a specific purpose. The authorization policy is a formal motion.

Unassigned Fund Balance - This category represents amounts that are available for any purpose.

For the classification of fund balances, the Town considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balance, the Town considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

**THE TOWN OF POOLESVILLE, MARYLAND**  
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Budgets and Budgetary Analysis

The Town adopts an annual budget for the General and Water and Sewer Funds on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations for salaries and operating expenses lapse at the fiscal year end, but appropriations for equipment and capital projects are carried forward into the subsequent fiscal year as an appropriated surplus. Budget revisions receive approval of the Commissioners if the result is an appropriation from the operating reserve or a change in the funding for a capital expenditure. There were several budget revisions approved by the Commissioners during the year ended June 30, 2016. Both original and final budgets of the General Fund have been included in the presentation of the Town’s required supplementary information (see *Schedule “1”*).

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, the disclosure of contingencies, and the reported revenues and expenditures/expenses. Actual results could vary from the estimates that were used.

Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 27, 2016, the date the financial statements were available to be issued.

**Note 2. Deposits and Investments**

The deposits and investments held as of June 30, 2016 are as follows:

<u>Type</u>	<u>Rating/ Interest Rate (Unaudited)</u>	<u>Maturities (Unaudited)</u>	<u>Carrying Value</u>
Deposits			
Demand Deposits			\$ 197,445
Investments			
Montgomery County Pooled Investment Program	Unrated/0.50%	252 Days Average	<u>3,024,893</u>
Total Deposits and Investments			<u>\$ 3,222,338</u>

**THE TOWN OF POOLESVILLE, MARYLAND**  
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The reconciliation to the statement of net position as of June 30, 2016 is as follows:

Current Assets	
Cash and Cash Equivalents	\$ <u>197,445</u>
Pooled Investments	
Unrestricted	2,550,006
Restricted	<u>145,396</u>
Total Pooled Investments	<u>2,695,402</u>
Total Current Assets	<u>2,892,847</u>
Non-Current Assets	
Pooled Investments - Restricted	<u>329,491</u>
Total Non-Current Assets	<u>329,491</u>
	<u>\$ 3,222,338</u>

The Town is a participant of the Montgomery County Pooled Investment Program (MCPIP), provided by the Montgomery County government, which offers county entities and other jurisdictions an investment vehicle for short-term investment of funds managed pursuant to State Legislature requirements. The MCPIP, under the administrative control of the County’s department of finance, is managed by a single financial institution. The Montgomery County Investment Committee oversees the activities of the MCPIP through quarterly meetings.

During the year, MCPIP investments are stated at cost plus accrued interest and are adjusted for amortization of premiums and accretion of discounts. Investments are marked-to-market at year-end, since the pool does not meet the strict definition of the Securities and Exchange Commission Rule 2a-7 (“2a-7 like”). The fair value of U.S. Government securities, repurchase agreements, commercial paper and bankers’ acceptances are provided by the County’s custodian, which are based on various industry standard pricing sources.

The fair value of the pool is the same as the value of the pool shares. The Town may withdraw funds from the pool at any time without penalty. The Town’s shares redeemed during the year are based on actual cost and are then adjusted to fair value at year-end.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Town’s investment in the MCPIP of \$3,024,893 is valued using quoted market prices of the underlying assets of the pool (Level 2 inputs). The Town has no investments categorized as Level 1 or Level 3.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Restricted investments as of June 30, 2016 are as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Current Assets		
Pooled Investments - Restricted		
Recreation and Parks	\$ 5,639	\$ -
Public Facilities	19,000	-
Reforestation	10,000	-
Waste Water Treatment Plant	-	81,757
Wells	-	29,000
Total Pooled Investments - Restricted	<u>34,639</u>	<u>110,757</u>
Total Current Assets	<u>\$ 34,639</u>	<u>\$ 110,757</u>
Non-Current Assets		
Pooled Investments - Restricted		
Public Facilities	\$ 65,700	\$ -
Reforestation	6,074	-
Wells	-	257,717
Total Pooled Investments - Restricted	<u>71,774</u>	<u>257,717</u>
Total Non-Current Assets	<u>\$ 71,774</u>	<u>\$ 257,717</u>

Restricted assets are classified as current when they are restricted for payment of current liabilities. Otherwise, they are non-current in nature.

The Town is governed by the deposit and investment limitations of Maryland law. The Town's formal investment policy does not limit its investment choices beyond the limitations of state law as follows:

1. An obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
2. An obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
3. A repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer;

**THE TOWN OF POOLESVILLE, MARYLAND**  
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4. Bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission (SEC) or the Treasurer;
5. With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States SEC issued by or on behalf of this or any other state or any agency, department, county, municipal or public corporation, special district, authority, or political subdivision thereof, or in any fund or trust that invests only in securities of the type described in this item;
6. Commercial paper that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organizations as designated by the United States SEC, provided that such commercial paper may not exceed 10% of the total investments made by the Treasurer under this subsection;
7. Money market mutual funds that:
  - a. are registered with the Securities and Exchange Commission under the Investment Company Act (ICA) of 1940, 15 U.S.C. § 80a-1 et seq., as amended;
  - b. are operated in accordance with Rule 2A-7 of the ICA of 1940, 17 C.F.R. § 270.2A-7, as amended; and
  - c. have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the United States SEC; and
8. Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) defined under §§ 17-301 through 17-309 of the Local Government Article of the Code that is administered by the Office of the State Treasurer.

*Custodial Credit Risk*

Deposits in financial institutions, reported as components of non-pooled cash and cash equivalents, had a bank balance of \$615,661 as of June 30, 2016, \$365,661 of which was exposed to custodial credit risk and uninsured. This amount was fully collateralized by securities pledged and held by a financial institution, not in the Town's name.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Interest Rate and Credit Risk

The Town's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as follows: the Town will attempt to match its investments with anticipated cash flow requirements and unmatched investments are to be limited to securities maturing up to two years from the date of purchase. Maturities of investments held as of June 30, 2016 are provided in the previous schedule.

The Town's formal investment policy does not address investment credit risk. Credit ratings on investments held as of June 30, 2016 are provided in the previous schedule.

Concentration of Credit Risk

The Town's formal investment policy limits the amount of concentration, in exception of United States Treasury Securities and authorized pools, to no more than 50% of the total investment portfolio in a single security type or with a single financial institution. As of June 30, 2016, the Town had no concentration of credit risk.

**Note 3. Capital Assets and Depreciation**

A summary of governmental activities follows:

	Balance July 1, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance June 30, <u>2016</u>
Capital Assets					
Non-Depreciable Assets					
Construction in Progress	\$ 31,414	\$ 49,646	\$ -	\$ (10,454)	\$ 70,606
Land and Land Rights	<u>2,600,931</u>	-	-	-	<u>2,600,931</u>
Total Non-Depreciable Assets	... <u>2,632,345</u>	... <u>49,646</u>	.....-	...(10,454)	... <u>2,671,537</u>
Depreciable Assets					
Buildings and Improvements	5,675,783	217,323	-	10,454	5,903,560
Equipment	1,432,856	246,150	8,495	-	1,670,511
Infrastructure	16,192,820	1,803,122	-	-	17,995,942
Vehicles	<u>384,956</u>	<u>65,559</u>	<u>73,630</u>	-	<u>376,885</u>
Total Depreciable Assets	... <u>23,686,415</u>	... <u>2,332,154</u>	... <u>82,125</u>	... <u>10,454</u>	... <u>25,946,898</u>
Total Capital Assets	... <u>26,318,760</u>	... <u>2,381,800</u>	... <u>82,125</u>	.....-	... <u>28,618,435</u>
Accumulated Depreciation					
Buildings and Improvements	1,423,705	229,588	-	-	1,653,293
Equipment	926,799	110,003	8,495	-	1,028,307
Infrastructure	7,408,326	353,647	-	-	7,761,973
Vehicles	<u>308,733</u>	<u>44,764</u>	<u>73,630</u>	-	<u>279,867</u>
Total Accumulated Depreciation	... <u>10,067,563</u>	... <u>738,002</u>	... <u>82,125</u>	.....-	... <u>10,723,440</u>
Total Capital Assets, Net	<u>\$ 16,251,197</u>	<u>\$ 1,643,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,894,995</u>

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Depreciation expense for the year ended June 30, 2016 was charged to governmental activities functions as follows:

General Government	\$ 184,809
Public Safety	23,854
Public Works, Recreation and Parks	<u>529,339</u>
	<u>\$ 738,002</u>

Accumulated costs attributable to governmental activities projects included in construction in progress as of June 30, 2016 are as follows:

Dog Park	\$ 49,646
Hoewing Park Fencing	<u>20,960</u>
	<u>\$ 70,606</u>

A summary of business-type activities follows:

	Balance July 1, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active <u>Status</u>	Balance June 30, <u>2016</u>
<b>Capital Assets</b>					
<b>Non-Depreciable Assets</b>					
Construction in Progress	\$ 338,675	\$ 201,558	\$ -	\$ (31,718)	\$ 508,515
Land and Land Rights	<u>119,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,429</u>
Total Non-Depreciable Assets	.....458,104	..201,558	.....-	...(31,718)	.....627,944
<b>Depreciable Assets</b>					
Equipment	711,321	22,289	-	-	733,610
Infrastructure	35,070,639	646,516	-	31,718	35,748,873
Vehicles	<u>124,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,278</u>
Total Depreciable Assets	...35,906,238	..668,805	.....-	...31,718	...36,606,761
Total Capital Assets	...36,364,342	..870,363	.....-	.....-	...37,234,705
<b>Accumulated Depreciation</b>					
Equipment	410,032	98,897	-	-	508,929
Infrastructure	14,833,781	734,156	-	-	15,567,937
Vehicles	<u>88,375</u>	<u>16,051</u>	<u>-</u>	<u>-</u>	<u>104,426</u>
Total Accumulated Depreciation	...15,332,188	...849,104	.....-	.....-	...16,181,292
Total Capital Assets, Net	<u>\$ 21,032,154</u>	<u>\$ 21,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,053,413</u>

Depreciation expense for the year ended June 30, 2016 charged to business-type activities for the Water and Sewer Fund totaled \$849,104.

**THE TOWN OF POOLESVILLE, MARYLAND**  
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Accumulated costs attributable to business-type activities projects included in construction in progress as of June 30, 2016 are as follows:

Jamison Cattail Well	\$ 87,169
Rabanales Well #11	227,707
Repaint 500K Water Tower	110,032
Water Communication System	29,944
Westerly Well #14	<u>53,663</u>
	<u>\$ 508,515</u>

**Note 4. Long-Term Liabilities**

Bonds payable as of June 30, 2016 consists of the following for Business-Type Activities:

Bonds Payable

2004 Water Quality Bond Series (State of Maryland) - Wastewater Treatment Plant/Biological Nutrient Removal Upgrade; due in remaining annual principal installments ranging from \$67,071 to \$72,408, through February 2024; annual interest rate of 1.1% paid semi-annually; secured by the credit and taxing power of the Town.	\$ 557,683
2006 Bond (State of Maryland) - Wesmond Sewer Rehabilitation Project Phases III-V; due in remaining annual principal installments ranging from \$75,625 to \$77,916, through February 2021; annual interest rate of 1.0% paid semi-annually; secured by the credit and taxing power of the Town.	382,774
2013 Water Quality Bond Series (State of Maryland) - Westerly Subdivision Relining; due in remaining annual principal installments ranging from \$108,106 to \$147,651, through February 2033; annual interest rate of 2.1% paid semi-annually; secured by the credit and taxing power of the Town.	<u>2,088,390</u>
<b>Total Bonds Payable</b>	<u><b>\$ 3,028,847</b></u>

The following is a summary of changes in long-term liabilities for the year ended June 30, 2016:

Type of Debt	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2016</u>	Due Within <u>One Year</u>
Governmental Activities					
Accounts Payable	\$ <u>149,246</u>	\$ -	\$ <u>12,151</u>	\$ <u>137,095</u>	\$ <u>61,792</u>
<b>Total Governmental Activities</b>	<u>\$ 149,246</u>	<u>\$ -</u>	<u>\$ 12,151</u>	<u>\$ 137,095</u>	<u>\$ 61,792</u>

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Business-Type Activities					
Accounts Payable	\$.....-	\$1,356	\$.....-	\$.....1,356	\$.....1,356
Bonds Payable					
State of Maryland - 2004	624,024	-	66,341	557,683	67,071
State of Maryland - 2006	457,650	-	74,876	382,774	75,625
State of Maryland - 2013	<u>2,194,273</u>	<u>-</u>	<u>105,883</u>	<u>2,088,390</u>	<u>108,106</u>
Total Bonds Payable	<u>..3,275,947</u>	<u>.....-</u>	<u>..247,100</u>	<u>..3,028,847</u>	<u>..250,802</u>
Total Business-Type Activities	<u>\$ 3,275,947</u>	<u>\$ 1,356</u>	<u>\$ 247,100</u>	<u>\$ 3,030,203</u>	<u>\$ 252,158</u>

The accounts payable noted in the schedules above for governmental activities represent specific liabilities of \$137,095 that span over a one-year period and will be paid from future impact fee collections from the Kettler development. The accounts payable noted for business-type activities represents retainage payable to contractors for long-term contracts.

Interest and related costs incurred for business-type activities for the year ended June 30, 2016 was \$76,582.

The principal and interest requirements to maturity of the bonds payable debt are as follows:

Year Ending <u>June 30,</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 250,802	\$ 53,819
2018	254,565	50,054
2019	258,393	46,227
2020	262,285	42,374
2021	263,255	38,376
2022-2026	840,315	139,111
2027-2031	693,932	65,880
2032-2033	<u>205,300</u>	<u>5,523</u>
	<u>\$ 3,028,847</u>	<u>\$ 441,364</u>

**Note 5. Interfund Transactions**

Interfund transfers are indicative of funding for capital projects and subsidies of various Town operations. For the year ended June 30, 2016, \$717,031 net was transferred from the General Fund to the Water and Sewer Fund, of which \$255,621 was for current year capital expenditures, \$164,100 was for subsidizing salaries, benefits and insurance costs, \$243,777 was for current year debt service payments, and \$53,533 for covering miscellaneous expenses during the current year.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 6. Net Position and Fund Balances**

The following is a summary of restricted net position and fund balances as of June 30, 2016:

General Fund	
Public Facilities	\$ 84,700
Reforestation	<u>16,074</u>
Total General Fund	<u>\$ 100,774</u>
Water and Sewer Fund	
Waste Water Treatment Plant	\$ 81,757
Wells	<u>286,717</u>
Total Water and Sewer Fund	<u>\$ 368,474</u>

Parks and Recreation - Investments derived from impact fees are restricted to expenditures for parks and recreation imposed by enabling legislation.

Public Facilities - Investments derived from impact fees are restricted to expenditures for public facilities imposed by enabling legislation.

Public Safety - Investments derived from speed camera revenue are restricted for public safety purposes, including pedestrian safety programs.

Reforestation Fees - Investments derived from reforestation fees are restricted to the purpose for which the reforestation fees are imposed.

Waste Water Treatment Plant - Investments derived from impact fees are restricted to expenditures for waste water treatment plant improvements imposed by enabling legislation.

Wells - Investments derived from impact fees are restricted to expenditures for wells imposed by enabling legislation.

The following is a summary of General Fund assigned fund balances as of June 30, 2016:

Economic Development	\$ 3,205
General Fund Capital Projects	641,052
Public Safety	17,983
Recreation	14,381
Water and Sewer Fund Capital Projects	<u>1,002,784</u>
	<u>\$ 1,679,405</u>

**THE TOWN OF POOLESVILLE, MARYLAND**  
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**Note 7. Property Taxes**

From the effective date of the budget, the amount stated thereon as the amount to be raised by property taxes shall constitute a determination of the amount of the tax levies in the corresponding tax year. The Town's property taxes are levied each July 1 on the assessed value listed as of July 1 for all real and business personal property located in the Town. Real property taxes are due in two equal installments, half on September 30 and half on December 31, and become delinquent after January 1. Business personal property taxes are due in one installment between July 1 and December 31, and become delinquent after January 1. The tax rates for real and business personal property for the year ended June 30, 2016 were \$0.17 and \$0.60, respectively, per \$100 assessed property value.

**Note 8. Lease Agreements**

The Town has entered into communication tower lease agreements, which are expected to provide the following future minimum receipts for the years ending June 30:

2017	\$ 174,225
2018	175,809
2019	144,496
2020	<u>51,818</u>
	<u>\$ 546,348</u>

All lease agreements have three consecutive five-year renewal options at the lessee's discretion, and the future minimum receipts noted above are limited to the current renewal periods under the relating non-cancelable agreements.

**Note 9. Deferred Compensation Plans**

The Town offers two deferred compensation plans, including a 401(a) government plan, in accordance with Internal Revenue Code (IRC) Section 414(d), and a deferred compensation plan, in accordance with IRC Section 457(b). The Town's plans are available to all full-time employees. The 401(a) plan has 16 active participants as of June 30, 2016. The 457(b) has two active participants as of June 30, 2016.

The 401(a) plan permits the Town to contribute 10% of the employee's base compensation. The Town's contribution for each employee (and interest allocated to the employee's account) is fully vested at the time the employee's participation in the plan begins. The Commissioners can amend these terms if 61% of the Commissioners vote to amend them. The Town contributed \$93,602 under the 401(a) plan during the year ended June 30, 2016.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

The 457(b) plan permits employees to defer a portion of their salary until future years, which the employees are fully vested in upon contribution. Employees can defer the lesser of \$17,500, and up to an additional \$5,500 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year.

All amounts of compensation deferred under the plans and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The 401(a) and 457(b) Plan Administrator, AXA Equitable, is the trustee of the investments.

**Note 10. Commitments and Contingencies**

The Town participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited by the appropriate grantor government, but the Town believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual funds or the overall financial position of the Town.

The Town is committed under a contract to replace outdated communication systems for the entire water system. The total contract amount is \$135,566, and \$122,009 was outstanding as of June 30, 2016.

The Town has a number of Public Improvements Agreements with various developers and contractors within the Town. One current agreement has significant commitments to the Town in relation to construction and related costs through reimbursement of collected impact fees. Under the agreement, the Town reimburses the developer the portion of impact fees (“credits”), as received, that relate to recreation and water supply facilities functions, based on the Town’s impact fee model, for Town-approved invoices from the relating developers. Any collected fees for the recreation and water supply functions under these agreements are tracked as restricted cash until invoices are received to be paid from these accumulated funds. In addition, the Town is liable for actual costs incurred by the developer exceeding impact fees collected and reimbursed for those recreation and water supply facilities functions, which are payable from future collected impact fees.

A balance of \$142,734 is related to costs incurred by the developers as of June 30, 2016 that have not yet been reimbursed to the developers, including \$5,639 in recreation credits in the General Fund reported as restricted investments. The Town has agreed with the developers to repay the remaining balance upon collection of other recreation credits from the developers as other units progress and will make a final lump-sum payment when the development is complete.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

In 2014, the Town executed a lease agreement with an unrelated party to install a ground mount solar system on Town property for a period of 20 years with an additional five year available extension. Provided the Town does not exercise an option to purchase the system prior to lease expiration (based on an annual declining-cost scale starting after the fifth year of lease or then fair market value, whichever greater), the unrelated party will remove the system and return the land back to original state within six months of lease expiration/termination. The Town executed a Retail Electricity Agreement, whereas the Town agrees to purchase electricity output for the Town's wastewater treatment facility directly from the system over the length of the system lease agreement at a pre-determined price per kWh, which increases annually.

In June 2015, the Supreme Court of the United States affirmed its ruling on docket 13-485 (*Maryland State Comptroller of the Treasury v. Brian Wynne*) ("Wynne decision") regarding income tax credits received by Maryland residents for taxes paid to other states. This ruling is expected to impact future income tax appropriations to the Town. As of July 21, 2016, the Comptroller of Maryland has determined that the Town's future income tax appropriations will be reduced by \$27,185. The Town has the option to make a one-time payment of this liability by March 31, 2019, or reduce future income tax appropriations over 20 quarterly reductions, from May 2019 through February 2024.

**Note 11. Risk Management**

The Town is exposed to various risks of loss related to torts, errors and omissions, and natural disasters. The Town purchases commercial insurance for theft of, damage to, and destruction of assets, and injuries to employees. The Town currently reports all of its risk management activities in the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The Town is a member in the Local Government Insurance Trust (LGIT), which is owned and directed by local governments (participants) that subscribe to its insurance coverages. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The Town does not exercise any control over the LGIT's operations.

The maximum coverage under the liability pool of the LGIT is \$1,000,000 per claim. The Town also participates in an excess liability pool, which has maximum coverage of \$2,000,000. There have been no assessments during the year ended June 30, 2016, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 12. Environmental Concerns**

The Town operates a sewer facility and has an above-ground storage tank for its diesel fuel. The above-ground storage tank is surrounded by containment tanks to lessen the severity of contamination in the event of a leak. If a leak or contamination occurred, the Town could become liable for the cost to clean up the spill.

**Note 13. Concentrations and Economic Dependencies**

The Town provides various services to its residents. The Town is located in Montgomery County, Maryland. Credit is granted to its residents for taxes, water bills, and sewer bills. The Town may place a lien on any property associated with unpaid taxes and water and sewer services; therefore, an allowance for uncollectible amounts is not considered necessary.

**Note 14. Reconciliation of Operating Loss to Net Cash Used by Operating Activities**

	<u>Water and Sewer Fund</u>
Operating Loss	\$ (1,094,052)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	849,104
(Increase) Decrease in Assets	
Accounts Receivable	42,594
Unbilled Services	(8,255)
Inventory	(7,694)
Decrease in Liabilities	
Accounts Payable and Accrued Expenses	<u>(95,674)</u>
Net Cash Used by Operating Activities	<u>\$ (313,977)</u>

Due to a change in presentation between investments and cash and cash equivalents, the beginning cash balance was adjusted from \$678,774 to \$10,120.

**Note 15. New Governmental Accounting Standards Board Pronouncements**

The GASB has issued several pronouncements prior to the year ended June 30, 2016 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town:

**THE TOWN OF POOLESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective for the Town as of July 1, 2016. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability where OPEB plans are administered through trusts.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the Town as of July 1, 2017. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability for all employers with OPEB plans.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the Town as of July 1, 2016. The objective of this statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public concerning nature and magnitude of tax abatements.

**Note 16. Restatement of Fund Balance**

During the year ended June 30, 2016, it was determined that long-term accounts payable of \$149,246 was incorrectly recorded in the general fund financial statements. Fund balance as of June 30, 2015 has been restated to reflect this correction, as follows:

	<u>General Fund</u>
Total Fund Balance Reconciliation for Restatement of Fund Balance	
Total Fund Balance as of June 30, 2015, As Originally Stated	\$ 1,773,398
Adjustment for Accounts Payable	<u>149,246</u>
Total Fund Balance as of June 30, 2015, As Restated	<u>\$ 1,922,644</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**THE TOWN OF POOLESVILLE, MARYLAND**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**UNAUDITED**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Taxes	\$ 2,265,390	\$ 2,881,985	\$ 2,847,369	\$ (34,616)
Intergovernmental	336,356	513,764	607,593	93,829
Charges for Services	93,514	210,150	210,399	249
Licenses and Permits	70,000	77,959	84,023	6,064
Interest Income and Rents	165,000	178,247	180,517	2,270
Miscellaneous	3,244	23,794	18,177	(5,617)
<b>TOTAL REVENUES</b>	<b><u>2,933,504</u></b>	<b><u>3,885,899</u></b>	<b><u>3,948,078</u></b>	<b><u>62,179</u></b>
<b>EXPENDITURES</b>				
General Government	1,251,137	1,332,234	1,373,248	(41,014)
Public Safety	28,000	20,884	20,884	-
Public Works	579,800	646,247	647,144	(897)
Recreation and Parks	57,700	71,175	103,156	(31,981)
Capital Outlays	298,759	453,322	400,819	52,503
<b>TOTAL EXPENDITURES</b>	<b><u>2,215,396</u></b>	<b><u>2,523,862</u></b>	<b><u>2,545,251</u></b>	<b><u>(21,389)</u></b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b><u>718,108</u></b>	<b><u>1,362,037</u></b>	<b><u>1,402,827</u></b>	<b><u>40,790</u></b>
<b>OTHER FINANCING USES</b>				
Net Transfers	(1,141,851)	(601,157)	(717,031)	(115,874)
<b>TOTAL OTHER FINANCING USES</b>	<b><u>(1,141,851)</u></b>	<b><u>(601,157)</u></b>	<b><u>(717,031)</u></b>	<b><u>(115,874)</u></b>
<b>NET CHANGES IN FUND BALANCE</b>	<b>(423,743)</b>	<b>760,880</b>	<b>685,796</b>	<b>(75,084)</b>
Fund Balance - Beginning of Year, As Restated	1,922,644	1,922,644	1,922,644	-
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$1,498,901</u></b>	<b><u>\$2,683,524</u></b>	<b><u>\$2,608,440</u></b>	<b><u>\$ (75,084)</u></b>