

THE TOWN OF POOLESVILLE, MARYLAND

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**



**CPAs &
BUSINESS
ADVISORS**

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THE TOWN OF POOLESVILLE, MARYLAND

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INDEPENDENT AUDITORS' REPORT

October 12, 2017

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 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, 2017
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, 2017. 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 \$39,159,748. Of this amount, \$3,200,018 may be used to meet the Town's ongoing obligations to citizens and creditors.
2. The Town's total net position decreased by \$210,638, which was primarily a result of depreciation of the Town's capital assets of \$752,157 and \$844,992 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 \$2,401,244, a decrease of \$207,196 in comparison to the prior year. \$2,283,403 is considered spendable and unrestricted, \$686,954 of which is unassigned and is available for spending at the Town's discretion.
4. The Town's total debt decreased by \$250,802 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 useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors to consider are discussed later in this report.

THE TOWN OF POOLESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

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, 2017
UNAUDITED

Proprietary Funds. The Town maintains one enterprise type proprietary fund: the water and sewer 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 \$39,159,748 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, 2017
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, 2017 AND 2016

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets						
Current and Other Assets	\$ 2,420,334	\$ 2,631,627	\$ 1,378,576	\$ 1,166,716	\$ 3,798,910	\$ 3,798,343
Capital Assets, Net	<u>17,554,356</u>	<u>17,894,995</u>	<u>20,828,908</u>	<u>21,053,413</u>	<u>38,383,264</u>	<u>38,948,408</u>
Total Assets	<u>19,974,690</u>	<u>20,526,622</u>	<u>22,207,484</u>	<u>22,220,129</u>	<u>42,182,174</u>	<u>42,746,751</u>
Liabilities						
Current Liabilities	52,119	79,922	386,645	443,095	438,764	523,017
Non-Current Liabilities	<u>60,182</u>	<u>75,303</u>	<u>2,523,480</u>	<u>2,778,045</u>	<u>2,583,662</u>	<u>2,853,348</u>
Total Liabilities	<u>112,301</u>	<u>155,225</u>	<u>2,910,125</u>	<u>3,221,140</u>	<u>3,022,426</u>	<u>3,376,365</u>
Net Position						
Net Investment in Capital Assets	17,452,276	17,757,900	18,050,863	18,023,210	35,503,139	35,781,110
Restricted	117,841	100,774	338,750	368,474	456,591	469,248
Unrestricted	<u>2,292,272</u>	<u>2,512,723</u>	<u>907,746</u>	<u>607,305</u>	<u>3,200,018</u>	<u>3,120,028</u>
Total Net Position	<u>\$ 19,862,389</u>	<u>\$ 20,371,397</u>	<u>\$ 19,297,359</u>	<u>\$ 18,998,989</u>	<u>\$ 39,159,748</u>	<u>\$ 39,370,386</u>

**THE TOWN OF POOLESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED**

**CONDENSED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 226,535	\$ 233,098	\$ 1,386,840	\$ 1,306,533	\$ 1,613,375	\$ 1,539,631
Operating Grants and Contributions	176,386	242,124	-	-	176,386	242,124
Capital Grants and Contributions	377,560	2,147,244	356,759	616,244	734,319	2,763,488
<i>General Revenues</i>						
Taxes	2,804,448	2,828,631	-	-	2,804,448	2,828,631
Grants, Contributions, and Franchise Fees - Unrestricted	295,738	272,681	-	-	295,738	272,681
Interest Income and Rents	192,332	180,517	11,660	7,879	203,992	188,396
Miscellaneous	594	18,177	7,721	12,391	8,315	30,568
Total Revenues	<u>4,073,593</u>	<u>5,922,472</u>	<u>1,762,980</u>	<u>1,943,047</u>	<u>5,836,573</u>	<u>7,865,519</u>
Expenses						
General Government	1,016,557	1,078,770	-	-	1,016,557	1,078,770
Public Safety	60,281	44,738	-	-	60,281	44,738
Public Works, Recreation, and Parks	2,518,771	1,758,926	-	-	2,518,771	1,758,926
Water and Sewer Services	-	-	2,451,602	2,298,858	2,451,602	2,298,858
Total Expenses	<u>3,595,609</u>	<u>2,882,434</u>	<u>2,451,602</u>	<u>2,298,858</u>	<u>6,047,211</u>	<u>5,181,292</u>
Excess (Deficiency) Before Transfers	477,984	3,040,038	(688,622)	(355,811)	(210,638)	2,684,227
Net Transfers	(986,992)	(717,031)	986,992	717,031	-	-
Changes in Net Position	<u>\$ (509,008)</u>	<u>\$ 2,323,007</u>	<u>\$ 298,370</u>	<u>\$ 361,220</u>	<u>\$ (210,638)</u>	<u>\$ 2,684,227</u>

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 decreased the Town's net position by \$509,008. The decrease is primarily due to \$986,992 for transfers to the water and sewer fund to assist with capital improvements, debt service, and payroll requirements.

THE TOWN OF POOLESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

Business-Type Activities. Business-type activities increased the Town's net position by \$298,370. The water and sewer fund charges for services do not cover the cost of operations. As a result the general fund transferred \$986,992 to assist with capital improvements, debt service, and payroll requirements. In addition, the \$335,509 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 \$2,401,244, a decrease of \$207,196 in comparison with the prior year. 95% (\$2,283,403) of this total amount constitutes spendable, unrestricted fund balances, \$1,596,449 of which has been assigned by the Town (as discussed in the financial statement notes) and \$686,954 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 \$907,746. The enterprise fund had an increase in net position for the year of \$298,370. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

THE TOWN OF POOLESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 \$141,712 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 following is a discussion regarding some of the more significant differences between the Town's final budget and actual results:

Overall, revenue streams were down slightly \$85,758. This was mainly due to decreases in miscellaneous (\$21,796), and decreases in intergovernmental (\$89,719). The variance in intergovernmental revenue primarily relates to FEMA funds reimbursed for emergency snow removal costs and grant funding for tennis courts that were recognized as revenue in the prior fiscal year, but budgeted in the current fiscal year. In total, expenditures were less than the budgeted estimates by \$17,289, and there were minimal budget-to-actual variances when comparing to the each of the various expense functions.

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, 2017, amounted to \$38,383,264 (net of accumulated depreciation). These capital assets include land, buildings, water/sewer system improvements, machinery and equipment, park facilities, and vehicles. The total net decrease in the Town's capital assets for the current fiscal year was \$565,144, as further detailed in the notes to financial statements.

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

	<u>Amount</u>
Churchill paving	\$ 39,673
Churchill water and sewer	\$ 106,380
Kettler landscaping, paving, and storm drains	\$ 294,868
Kettler water and sewer	\$ 229,129
Rabanales Well #11	\$ 61,304
Water Communication System	\$ 165,343

**THE TOWN OF POOLESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED**

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

Outstanding Debt as of June 30, 2017.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
General Obligation Bonds	\$ <u>-0-</u>	\$ <u>2,778,045</u>	\$ <u>2,778,045</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 2017-18 fiscal year:

1. Population will increase slightly with some new growth expected.
2. The current tax rate will be maintained at \$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 2017-18 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 \$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, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 293,164	\$ 44,051	\$ 337,215
Cash and Cash Equivalents - Restricted	-	28,545	28,545
Pooled Investments	1,867,060	563,347	2,430,407
Pooled Investments - Restricted	96,500	25,000	121,500
Accounts Receivable	29,158	55,977	85,135
Taxes Receivable	102,008	-	102,008
Due from Other Governments	11,103	-	11,103
Unbilled Services	-	307,810	307,810
Inventory	-	32,983	32,983
Current Portion of Note Receivable	-	978	978
TOTAL CURRENT ASSETS	2,398,993	1,058,691	3,457,684
NON-CURRENT ASSETS			
Note Receivable	-	6,135	6,135
Pooled Investments - Restricted	21,341	313,750	335,091
Property and Equipment			
Construction in Progress	7,968	434,238	442,206
Land and Land Rights	2,600,931	119,429	2,720,360
Buildings and Improvements	6,044,264	-	6,044,264
Equipment	1,699,520	733,610	2,433,130
Infrastructure	18,300,385	36,443,637	54,744,022
Vehicles	376,885	124,278	501,163
	29,029,953	37,855,192	66,885,145
Less: Accumulated Depreciation	11,475,597	17,026,284	28,501,881
Net Property and Equipment	17,554,356	20,828,908	38,383,264
TOTAL NON-CURRENT ASSETS	17,575,697	21,148,793	38,724,490
TOTAL ASSETS	19,974,690	22,207,484	42,182,174
DEFERRED OUTFLOWS OF RESOURCES	-	-	-

See Accompanying Notes

THE TOWN OF POOLESVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	52,119	82,678	134,797
Accrued Interest Payable	-	20,857	20,857
Current Portion of Bonds Payable	-	254,565	254,565
Payable from Restricted Assets:			
Due to Other Governments	-	28,545	28,545
TOTAL CURRENT LIABILITIES	52,119	386,645	438,764
NON-CURRENT LIABILITIES			
Accounts Payable	60,182	-	60,182
Bonds Payable	-	2,523,480	2,523,480
TOTAL NON-CURRENT LIABILITIES	60,182	2,523,480	2,583,662
TOTAL LIABILITIES	112,301	2,910,125	3,022,426
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION			
Net Investment in Capital Assets	17,452,276	18,050,863	35,503,139
Restricted	117,841	338,750	456,591
Unrestricted	2,292,272	907,746	3,200,018
TOTAL NET POSITION	\$ 19,862,389	\$ 19,297,359	\$ 39,159,748

See Accompanying Notes

THE TOWN OF POOLESVILLE, MARYLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 1,016,557	\$ 53,624	\$ -	\$ 30,098	\$ (932,835)	\$ -	\$ (932,835)
Public Safety	60,281	-	-	31,870	(28,411)	-	(28,411)
Public Works, Recreation, and Parks	2,518,771	172,911	176,386	315,592	(1,853,882)	-	(1,853,882)
Total Governmental Activities	3,595,609	226,535	176,386	377,560	(2,815,128)	-	(2,815,128)
Business-Type Activities							
Water and Sewer Services	2,451,602	1,386,840	-	356,759	-	(708,003)	(708,003)
Total Business-Type Activities	2,451,602	1,386,840	-	356,759	-	(708,003)	(708,003)
TOTAL PRIMARY GOVERNMENT	\$ 6,047,211	\$ 1,613,375	\$ 176,386	\$ 734,319	(2,815,128)	(708,003)	(3,523,131)
GENERAL REVENUES							
Taxes							
Income Taxes					1,368,852	-	1,368,852
Real Estate Taxes					1,386,919	-	1,386,919
Personal Property Taxes					48,677	-	48,677
Grants, Contributions, and Franchise Fees Not Restricted to Specific Programs					295,738	-	295,738
Interest Income and Rents					192,332	11,660	203,992
Net Transfers					(986,992)	986,992	-
Miscellaneous					594	7,721	8,315
TOTAL GENERAL REVENUES					2,306,120	1,006,373	3,312,493
CHANGES IN NET POSITION					(509,008)	298,370	(210,638)
Net Position - Beginning of Year					20,371,397	18,998,989	39,370,386
NET POSITION - END OF YEAR					\$ 19,862,389	\$ 19,297,359	\$ 39,159,748

See Accompanying Notes

THE TOWN OF POOLESVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Cash and Cash Equivalents	\$ 293,164	\$ 293,164
Pooled Investments	1,867,060	1,867,060
Pooled Investments - Restricted	117,841	117,841
Accounts Receivable	29,158	29,158
Taxes Receivable	102,008	102,008
Due from Other Governments	11,103	11,103
TOTAL ASSETS	<u>2,420,334</u>	<u>2,420,334</u>
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 2,420,334</u></u>	<u><u>\$ 2,420,334</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 10,221	\$ 10,221
TOTAL LIABILITIES	<u>10,221</u>	<u>10,221</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenues	8,869	8,869
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>8,869</u>	<u>8,869</u>
FUND BALANCES		
Restricted	117,841	117,841
Assigned	1,596,449	1,596,449
Unassigned	686,954	686,954
TOTAL FUND BALANCES	<u>2,401,244</u>	<u>2,401,244</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u><u>\$ 2,420,334</u></u>	<u><u>\$ 2,420,334</u></u>

See Accompanying Notes

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

JUNE 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,401,244
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.	8,869
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	17,554,356
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.	<u>(102,080)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 19,862,389</u></u>

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, 2017

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 2,800,636	\$ 2,800,636
Intergovernmental	449,063	449,063
Charges for Services	191,262	191,262
Licenses and Permits	101,353	101,353
Interest Income and Rents	192,332	192,332
Miscellaneous	594	594
TOTAL REVENUES	3,735,240	3,735,240
EXPENDITURES		
General Government	1,316,579	1,316,579
Public Safety	35,275	35,275
Public Works	1,396,276	1,396,276
Recreation and Parks	95,322	95,322
Capital Outlays	111,992	111,992
TOTAL EXPENDITURES	2,955,444	2,955,444
EXCESS OF REVENUES OVER EXPENDITURES	779,796	779,796
OTHER FINANCING USES		
Net Transfers	(986,992)	(986,992)
TOTAL OTHER FINANCING USES	(986,992)	(986,992)
NET CHANGES IN FUND BALANCES	(207,196)	(207,196)
Fund Balances - Beginning of Year	2,608,440	2,608,440
FUND BALANCES - END OF YEAR	\$ 2,401,244	\$ 2,401,244

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, 2017

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (207,196)**

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

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.

Add: Capital Outlays	111,992
Less: Depreciation Expense	(752,157)

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.	3,812
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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.	<u>334,541</u>
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CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (509,008)**

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

JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 44,051	\$ 44,051
Cash and Cash Equivalents - Restricted	28,545	28,545
Pooled Investments	563,347	563,347
Pooled Investments - Restricted	25,000	25,000
Accounts Receivable	55,977	55,977
Unbilled Services	307,810	307,810
Inventory	32,983	32,983
Current Portion of Note Receivable	978	978
TOTAL CURRENT ASSETS	1,058,691	1,058,691
NON-CURRENT ASSETS		
Note Receivable	6,135	6,135
Pooled Investments - Restricted	313,750	313,750
Property and Equipment		
Construction in Progress	434,238	434,238
Land and Land Rights	119,429	119,429
Equipment	733,610	733,610
Infrastructure	36,443,637	36,443,637
Vehicles	124,278	124,278
	37,855,192	37,855,192
Less: Accumulated Depreciation	17,026,284	17,026,284
Net Property and Equipment	20,828,908	20,828,908
TOTAL NON-CURRENT ASSETS	21,148,793	21,148,793
TOTAL ASSETS	22,207,484	22,207,484
DEFERRED OUTFLOWS OF RESOURCES	-	-

See Accompanying Notes

THE TOWN OF POOLESVILLE, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	82,678	82,678
Accrued Interest Payable	20,857	20,857
Current Portion of Bonds Payable	254,565	254,565
Payable from Restricted Assets		
Due to Other Governments	28,545	28,545
TOTAL CURRENT LIABILITIES	386,645	386,645
NON-CURRENT LIABILITIES		
Bonds Payable	2,523,480	2,523,480
TOTAL NON-CURRENT LIABILITIES	2,523,480	2,523,480
TOTAL LIABILITIES	2,910,125	2,910,125
DEFERRED INFLOWS OF RESOURCES	-	-
NET POSITION		
Net Investment in Capital Assets	18,050,863	18,050,863
Restricted	338,750	338,750
Unrestricted	907,746	907,746
TOTAL NET POSITION	\$ 19,297,359	\$ 19,297,359

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, 2017

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES		
Charges for Services	\$ 1,157,633	\$ 1,157,633
OPERATING EXPENSES		
Water		
Personnel Services	220,161	220,161
Outside Services and Testing	20,989	20,989
Utilities and Chemicals	85,602	85,602
Repairs and Maintenance	70,721	70,721
Administrative and General	164,812	164,812
	<u>562,285</u>	<u>562,285</u>
Sewer		
Personnel Services	218,611	218,611
Sludge Hauling	118,646	118,646
Outside Services and Testing	54,646	54,646
Utilities and Chemicals	188,924	188,924
Repairs and Maintenance	217,412	217,412
Administrative and General	110,713	110,713
	<u>908,952</u>	<u>908,952</u>
Inflow and Infiltration	<u>68,395</u>	<u>68,395</u>
Depreciation	<u>844,992</u>	<u>844,992</u>
TOTAL OPERATING EXPENSES	<u>2,384,624</u>	<u>2,384,624</u>
OPERATING LOSS	<u>(1,226,991)</u>	<u>(1,226,991)</u>
NON-OPERATING REVENUES (EXPENSES)		
Impact and Tap Fees	229,207	229,207
Interest Expense	(66,978)	(66,978)
Interest Income	11,660	11,660
Other Revenues	7,721	7,721
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>181,610</u>	<u>181,610</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, 2017

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(1,045,381)	(1,045,381)
Net Transfers	986,992	986,992
Capital Contributions	356,759	356,759
CHANGES IN NET POSITION	298,370	298,370
Net Position - Beginning of Year	18,998,989	18,998,989
NET POSITION - END OF YEAR	\$ 19,297,359	\$ 19,297,359

See Accompanying Notes

THE TOWN OF POOLESVILLE, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Water and Sewer Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows		
Cash Received from Customers	\$ 1,123,757	\$ 1,123,757
Outflows		
Cash Paid to Suppliers	1,048,488	1,048,488
Cash Paid to Employees	438,772	438,772
	1,487,260	1,487,260
NET CASH USED BY OPERATING ACTIVITIES	(363,503)	(363,503)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Inflows		
Cash Received from Other Funds	590,457	590,457
Other Revenues	7,721	7,721
	598,178	598,178
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	598,178	598,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Inflows		
Capital Contributions and Grants	21,250	21,250
Cash Received from Other Funds	396,535	396,535
Impact and Tap Fees	229,207	229,207
Principal Received on Loan Repayments	939	939
	647,931	647,931
Outflows		
Interest Paid	68,545	68,545
Purchase of Capital Assets	396,535	396,535
Payments on Long-Term Debt	250,802	250,802
	715,882	715,882
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(67,951)	(67,951)

See Accompanying Notes

THE TOWN OF POOLESVILLE, MARYLAND
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Water and Sewer Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows		
Interest Received	11,660	11,660

Outflows		
Purchase of Investments	145,407	145,407

NET CASH USED BY INVESTING ACTIVITIES	(133,747)	(133,747)

NET INCREASE IN CASH AND CASH EQUIVALENTS	32,977	32,977
Cash and Cash Equivalents - Beginning of Year	39,619	39,619

CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 72,596	\$ 72,596
	=====	=====
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 44,051	\$ 44,051
Cash and Cash Equivalents - Restricted	28,545	28,545

TOTAL CURRENT ASSETS	72,596	72,596

CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 72,596	\$ 72,596
	=====	=====
 NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
The Town received sewer and water related infrastructure from developers	\$ 335,509	\$ 335,509
	=====	=====

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, 2017 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans - 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. The provisions of this statement are effective for periods beginning after June 15, 2016 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* - 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. The provisions of this statement are effective for periods beginning after June 15, 2017 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 77, *Tax Abatement Disclosures* - 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. The provisions of this statement are effective for periods beginning after December 15, 2015 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations (AROs), by recognizing a liability for the government that has legal obligations to perform future asset retirement activities related to its tangible capital assets. The provisions of this statement are effective for periods beginning after June 15, 2018 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. The provisions of this statement are effective for periods beginning after December 15, 2018 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 85, *Omnibus 2017* - The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements, including blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The provisions of this statement are effective for periods beginning after June 15, 2017 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

debt. This statement also improves accounting and financial reporting for prepaid issuance on debt that is extinguished. The provisions of this statement are effective for periods beginning after June 15, 2017 and were early implemented by the Town as of July 1, 2016, with no effect on the 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.

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.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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:

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 inflows of resources by the recipient.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 acquisition 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.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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, 2017. 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 12, 2017, the date the financial statements were available to be issued.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Deposits and Investments

The deposits and investments held as of June 30, 2017 are as follows:

<u>Type</u>	<u>Rating/ Interest Rate (Unaudited)</u>	<u>Maturities (Unaudited)</u>	<u>Carrying Value</u>
Deposits			
Demand Deposits			\$ 365,760
Investments			
Montgomery County Pooled Investment Program	Unrated/0.87%	107 Days Average	<u>2,886,998</u>
Total Deposits and Investments			<u>\$ 3,252,758</u>

The reconciliation to the statement of net position as of June 30, 2017 is as follows:

Current Assets		
Cash and Cash Equivalents		
Unrestricted		\$ 337,215
Restricted		<u>28,545</u>
Total Cash and Cash Equivalents	365,760
Pooled Investments		
Unrestricted		2,430,407
Restricted		<u>121,500</u>
Total Pooled Investments		...2,551,907
Total Current Assets		...2,917,667
Non-Current Assets		
Pooled Investments - Restricted		<u>335,091</u>
Total Non-Current Assets	335,091
		<u>\$ 3,252,758</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.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 \$2,886,998 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.

Restricted cash and investments as of June 30, 2017 are as follows:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>
Current Assets		
Cash and Cash Equivalents - Restricted		
Bay Restoration Collections	\$ -	\$ 28,545
Total and Cash Equivalents - Restricted:28,545
Pooled Investments - Restricted		
Public Facilities	76,500	-
Reforestation	20,000	-
Wells	-	25,000
Total Pooled Investments - Restricted	...96,500	...25,000
Total Current Assets	<u>\$ 96,500</u>	<u>\$ 53,545</u>
Non-Current Assets		
Pooled Investments - Restricted		
Development Proffers	\$ -	\$ 11,250
Public Facilities	2,120	-
Reforestation	19,221	-
Sewer Connection Fees	-	16,348
Wells	-	286,152
Total Pooled Investments - Restricted	...21,341	...313,750
Total Non-Current Assets	<u>\$ 21,341</u>	<u>\$ 313,750</u>

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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. An obligation issued and unconditionally guaranteed by a supranational issuer denominated in United States dollars and eligible to be sold in the United States.
4. 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;
5. 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;
6. 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;
7. 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;

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

8. 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

9. 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 \$548,154 as of June 30, 2017, \$298,154 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.

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, 2017 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, 2017 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, 2017, the Town had no concentration of credit risk.

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 3. Capital Assets and Depreciation

A summary of governmental activities follows:

	Balance July 1, <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active <u>Status</u>	Balance June 30, <u>2017</u>
Capital Assets					
Non-Depreciable Assets					
Construction in Progress	\$ 70,606	\$ 7,968	\$ -	\$ (70,606)	\$ 7,968
Land and Land Rights	<u>2,600,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,600,931</u>
Total Non-Depreciable Assets	<u>2,671,537</u>	<u>7,968</u>	<u>-</u>	<u>(70,606)</u>	<u>2,608,899</u>
Depreciable Assets					
Buildings and Improvements	5,903,560	70,098	-	70,606	6,044,264
Equipment	1,670,511	29,009	-	-	1,699,520
Infrastructure	17,995,942	304,443	-	-	18,300,385
Vehicles	<u>376,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,885</u>
Total Depreciable Assets	<u>25,946,898</u>	<u>403,550</u>	<u>-</u>	<u>70,606</u>	<u>26,421,054</u>
Total Capital Assets	<u>28,618,435</u>	<u>411,518</u>	<u>-</u>	<u>-</u>	<u>29,029,953</u>
Accumulated Depreciation					
Buildings and Improvements	1,653,293	234,582	-	-	1,887,875
Equipment	1,028,307	117,491	-	-	1,145,798
Infrastructure	7,761,973	366,136	-	-	8,128,109
Vehicles	<u>279,867</u>	<u>33,948</u>	<u>-</u>	<u>-</u>	<u>313,815</u>
Total Accumulated Depreciation	<u>10,723,440</u>	<u>752,157</u>	<u>-</u>	<u>-</u>	<u>11,475,597</u>
Total Capital Assets, Net	<u>\$ 17,894,995</u>	<u>\$ (340,639)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,554,356</u>

Depreciation expense for the year ended June 30, 2017 was charged to governmental activities functions as follows:

General Government	\$ 183,366
Public Safety	25,006
Public Works, Recreation and Parks	<u>543,785</u>
	<u>\$ 752,157</u>

Accumulated costs attributable to governmental activities projects included in construction in progress as of June 30, 2017 are as follows:

Storage Building Addition	\$ 4,150
Whalen Pathway	<u>3,818</u>
	<u>\$ 7,968</u>

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

A summary of business-type activities follows:

	Balance July 1, <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active <u>Status</u>	Balance June 30, <u>2017</u>
Capital Assets					
Non-Depreciable Assets					
Construction in Progress	\$ 508,515	\$ 65,699	\$ -	\$ (139,976)	\$ 434,238
Land and Land Rights	<u>119,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,429</u>
Total Non-Depreciable Assets	<u>627,944</u>	<u>65,699</u>	<u>-</u>	<u>(139,976)</u>	<u>553,667</u>
Depreciable Assets					
Equipment	733,610	-	-	-	733,610
Infrastructure	35,748,873	554,788	-	139,976	36,443,637
Vehicles	<u>124,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,278</u>
Total Depreciable Assets	<u>36,606,761</u>	<u>554,788</u>	<u>-</u>	<u>139,976</u>	<u>37,301,525</u>
Total Capital Assets	<u>37,234,705</u>	<u>620,487</u>	<u>-</u>	<u>-</u>	<u>37,855,192</u>
Accumulated Depreciation					
Equipment	508,929	91,297	-	-	600,226
Infrastructure	15,567,937	745,084	-	-	16,313,021
Vehicles	<u>104,426</u>	<u>8,611</u>	<u>-</u>	<u>-</u>	<u>113,037</u>
Total Accumulated Depreciation	<u>16,181,292</u>	<u>844,992</u>	<u>-</u>	<u>-</u>	<u>17,026,284</u>
Total Capital Assets, Net	<u>\$ 21,053,413</u>	<u>\$ (224,505)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,828,908</u>

Depreciation expense for the year ended June 30, 2017 charged to business-type activities for the Water and Sewer Fund totaled \$844,992.

Accumulated costs attributable to business-type activities projects included in construction in progress as of June 30, 2017 are as follows:

Alum Feed System	\$ 990
Jamison Cattail Well	87,169
Rabanales Well #11	289,011
Westerly Well #14	<u>57,068</u>
	<u>\$ 434,238</u>

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 4. Long-Term Liabilities

Bonds payable as of June 30, 2017 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.	\$ 490,612
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.	307,149
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>1,980,284</u>
Total Bonds Payable	<u>\$ 2,778,045</u>

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

<u>Type of Debt</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Governmental Activities					
Accounts Payable	\$ <u>137,095</u>	\$ -	\$ <u>35,015</u>	\$ <u>102,080</u>	\$ <u>41,898</u>
Total Governmental Activities	\$ <u>137,095</u>	\$ -	\$ <u>35,015</u>	\$ <u>102,080</u>	\$ <u>41,898</u>
Business-Type Activities					
Accounts Payable	\$ <u>1,356</u>	\$ <u>17,075</u>	\$ <u>1,356</u>	\$ <u>17,075</u>	\$ <u>17,075</u>
Bonds Payable					
State of Maryland - 2004	557,683	-	67,071	490,612	67,808
State of Maryland - 2006	382,774	-	75,625	307,149	76,381
State of Maryland - 2013	<u>2,088,390</u>	-	<u>108,106</u>	<u>1,980,284</u>	<u>110,376</u>
Total Bonds Payable	<u>3,028,847</u>	<u>-</u>	<u>250,802</u>	<u>2,778,045</u>	<u>254,565</u>
Total Business-Type Activities	\$ <u>3,030,203</u>	\$ <u>17,575</u>	\$ <u>252,158</u>	\$ <u>2,795,120</u>	\$ <u>272,140</u>

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The accounts payable noted in the schedules above for governmental activities represent specific liabilities of \$102,080 that span over a one-year period and will be paid from future impact fee collections from the Kettler development. The accounts payable of \$17,075 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, 2017 were \$66,978.

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>
2018	\$ 254,565	\$ 50,054
2019	258,393	46,227
2020	262,285	42,374
2021	263,255	38,376
2022	190,785	34,382
2023-2027	782,609	123,613
2028-2032	708,505	51,307
2033	<u>57,648</u>	<u>1,211</u>
	<u>\$ 2,778,045</u>	<u>\$ 387,544</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, 2017, \$986,992 net was transferred from the General Fund to the Water and Sewer Fund, of which \$578,151 was for current year capital and related expenditures, \$166,373 was for subsidizing salaries, benefits and insurance costs, and \$242,468 was for current year debt service payments.

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, 2017:

General Fund	
Public Facilities	\$ 78,620
Reforestation	<u>39,221</u>
Total General Fund	<u>\$ 117,841</u>
Water and Sewer Fund	
Development Proffers	\$ 11,250
Sewer Connection Fees	16,348
Wells	<u>311,152</u>
Total Water and Sewer Fund	<u>\$ 338,750</u>

Development Proffers - As part of Public Improvement Agreements signed with several developers, the Town has pooled cash and cash equivalents restricted for specific purposes, including well construction, sewer infrastructure and maintenance, and streetscape projects.

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

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

Sewer Connection Fees - A fee paid to the Town, normally when applying for a Building Permit, to help offset the capital costs of new treatment facilities, major water distribution lines, elevated storage tanks, sanitary sewer capacity expansion improvements, etc.

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, 2017:

Economic Development	\$ 3,205
General Fund Capital Projects	440,929
Public Safety	49,853
Recreation	38,558
Water and Sewer Fund Capital Projects	<u>1,063,904</u>
	<u>\$ 1,596,449</u>

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2017 were \$0.1756 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:

2018	\$ 175,809
2019	144,496
2020	<u>51,818</u>
	<u>\$ 372,123</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, 2017. The 457(b) has two active participants as of June 30, 2017.

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 \$95,819 under the 401(a) plan during the year ended June 30, 2017.

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, 2017, 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 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 \$102,080 is related to costs incurred by the developers as of June 30, 2017 that have not yet been reimbursed to the developers. 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.

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

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2017, 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	\$ (1,226,991)
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation	844,992
Increase in Assets	
Accounts Receivable	(7,183)
Unbilled Services	(26,693)
Inventory	(539)
Increase in Liabilities	
Accounts Payable and Accrued Expenses	50,899
Due to Other Governments	<u>2,012</u>
Net Cash Used by Operating Activities	<u>\$ (363,503)</u>

THE TOWN OF POOLESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 15. New Governmental Accounting Standards Board Pronouncements

The GASB has issued several pronouncements prior to the year ended June 30, 2017 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statement may have on the financial statements of the Town:

GASB Statement No. 87, *Leases*, will be effective for the Town as of July 1, 2020. The objective of this statement is to improve accounting and financial reporting for leases by governments, by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The implementation of this statement is expected to have a significant effect on the Town's financial statements in the year of implementation; however, the effects of said implementation are not yet quantifiable.

REQUIRED SUPPLEMENTARY INFORMATION

THE TOWN OF POOLESVILLE, MARYLAND
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 2,392,857	\$ 2,793,730	\$ 2,800,636	\$ 6,906
Intergovernmental	456,038	538,782	449,063	(89,719)
Charges for Services	93,514	184,679	191,262	6,583
Licenses and Permits	50,000	93,045	101,353	8,308
Interest Income and Rents	180,000	188,372	192,332	3,960
Miscellaneous	3,244	22,390	594	(21,796)
TOTAL REVENUES	<u>3,175,653</u>	<u>3,820,998</u>	<u>3,735,240</u>	<u>(85,758)</u>
EXPENDITURES				
General Government	1,318,591	1,317,435	1,316,579	856
Public Safety	28,000	35,275	35,275	-
Public Works	1,212,950	1,398,067	1,396,276	1,791
Recreation and Parks	78,700	100,717	95,322	5,395
Capital Outlays	107,259	121,239	111,992	9,247
TOTAL EXPENDITURES	<u>2,745,500</u>	<u>2,972,733</u>	<u>2,955,444</u>	<u>17,289</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>430,153</u>	<u>848,265</u>	<u>779,796</u>	<u>(68,469)</u>
OTHER FINANCING USES				
Net Transfers	(363,063)	(913,749)	(986,992)	(73,243)
TOTAL OTHER FINANCING USES	<u>(363,063)</u>	<u>(913,749)</u>	<u>(986,992)</u>	<u>(73,243)</u>
NET CHANGES IN FUND BALANCE	67,090	(65,484)	(207,196)	(141,712)
Fund Balance - Beginning of Year	2,608,440	2,608,440	2,608,440	-
FUND BALANCE - END OF YEAR	<u>\$2,675,530</u>	<u>\$2,542,956</u>	<u>\$2,401,244</u>	<u>\$ (141,712)</u>