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Financial Statements
with Independent Auditor's Report
For the year ended June 30, 2006



Town of Forest Heights

Forest Heights, Maryland

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FRANCIS J. DISALVO
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members
Of the Town Council
Town of Forest Heights, Maryland

I have audited the accompanying financial statements of the governmental activities and the major fund of the town of Forest Heights as of and for the year ended June 30, 2006, which collectively comprise the Town of Forest Height's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Forest Heights' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement's presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund information of the Town of Forest Heights as of June 30, 2006, and the respective changes in financial position, where applicable, for the year then ended in conformity with the accounting principals generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued a report dated May 9, 2008 on my consideration of the Town of Forest Height's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management's Discussions and Analysis and the other required supplementary information on pages 28 through 31 and are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurements and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Dan P. O'Neil CPA". The signature is written in a cursive style with a large, prominent initial "D".

Suitland, Maryland
May 9, 2008

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

This section of the Town of Forest Height's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2006. Please read it with the Town's financial statements, which immediately follow this section.

Financial Highlights

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$1,752,243 (Net Assets). Of this amount, \$120,982 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$218,740. As of the close of the current fiscal year, the Town's general fund reported fund balance of \$148,123, a decrease of \$99,039 in comparison to the prior year as restated. The Town's total long-term obligations decreased by \$30,049.

Overview of Financial Statements

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

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. To assess the overall health of the Town, you need to consider additional non-financial factors such as changes in the Town's property tax base and the condition of the Town's roads.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2005. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 government activities of the Town include general government, public safety, and public works.

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

In the government-wide financial statements, the Town's activities are in one category:

- **Governmental Activities:** Most of the Town's basic services are included here, such as the police, public works, and general administration. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements. The fund financial statements provide more detailed information about the Town's funds, focusing on its most significant or "major" funds (not the Town as a whole). Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The Town Council establishes other funds to control and manage money for particular purposes (like agency trust funds for police services).

The Town has one major fund, the general fund.

- **General fund:** The Town's basic services are included in the general fund, which focus on (1) how cash and other financial assets can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the general fund statement provides a short-term view that helps determine whether there are more or fewer financial resources that can be spent on the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the reconciliation statements that explain the relationship (or differences) between them.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The town adopts an annual budget for its general fund. A budgetary comparison statement for the general fund is presented immediately after the basic financial statements to demonstrate compliance with this budget.

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

Major features of the Government-Wide and Fund Financial Statements

The chart below summarizes the major features of the Town's financial statements, including the portion of the activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and content of each of the statements.

	<i>GOVERNMENT-WIDE STATEMENTS</i>	<i>FUND FINANCIAL STATEMENTS GOVERNMENTAL FUNDS</i>
SCOPE	ENTIRE TOWN (EXCEPT FIDUCIARY FUNDS)	THE ACTIVITIES OF THE TOWN THAT ARE NOT PROPRIETARY OR FIDUCIARY.
Required financial Statements	<ul style="list-style-type: none"> ➤ Statement of net assets ➤ Statement of activities 	<ul style="list-style-type: none"> ➤ Balance sheet ➤ Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus.	Accrual accounting and economic resources' focus.	Modified accrual accounting and current financial focus.
Type of asset/liability information.	All assets and liabilities, both financial and capital, short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter.
Type of in-flow/out-flow information.	All revenues and expenses during the year.	Revenues for which cash is received, expenditures when goods or services have been received, and related liabilities that are due and payable.

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined assets exceeded liabilities by \$1,752,243 at the close of the fiscal year ended June 30, 2006.

Of the Town's net assets, 93 percent reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt 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 spending. Although the Town's investment in 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 following table presents a summary of the Statement of Net Assets for the Town as of June 30, 2006.

Condensed Statement of Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$ 346,793	\$ 348,106
Capital Assets	1,678,184	1,392,479
Total assets	2,024,977	1,740,585
Liabilities		
Long-term liabilities outstanding	74,064	106,137
Other Liabilities	198,670	100,945
Total liabilities	272,734	207,082
Net Assets	1,752,243	\$ 1,533,503
Net Assets		
Invested in capital assets, <i>net of related debt</i>	\$ 1,631,261	\$ 1,269,905
Unrestricted	120,982	263,598
Total net assets	\$ 1,752,243	\$ 1,533,503

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

Changes in Net Assets

The Town's revenue totaled \$1,180,210 (see Chart A). Virtually half of the Town's revenue comes from property taxes, and 75 cents of every dollar comes from some type of tax (see Chart A). The Town's expenses cover a range of services, with about 35% related to public safety and 40% to public works (see Chart B).

Chart A
Source of Revenue Fiscal Year 2006

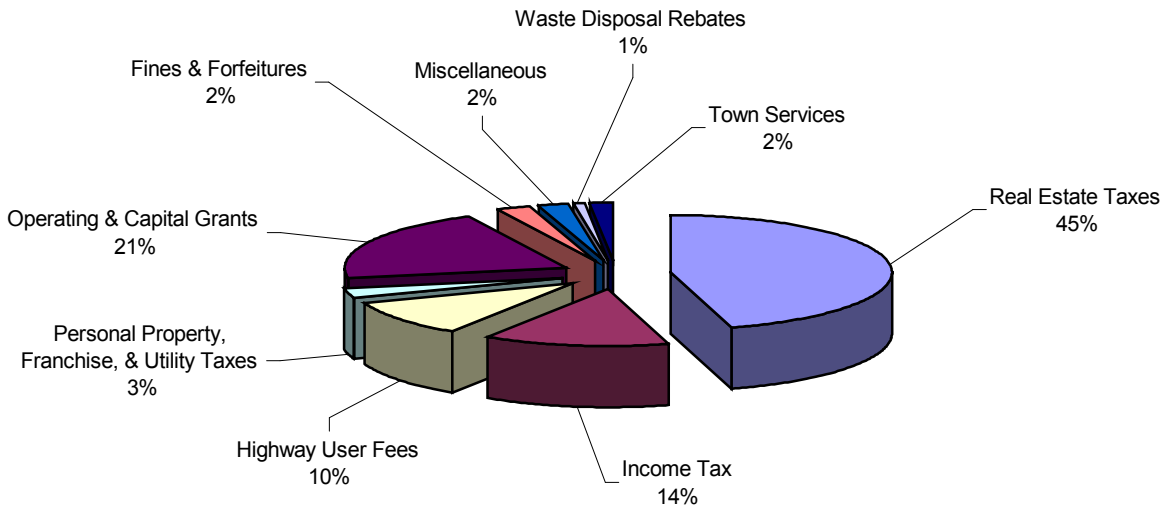
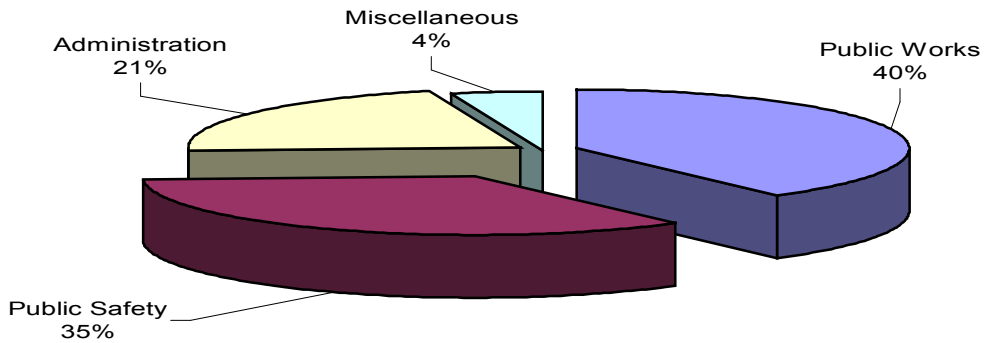


Chart B
Functional Expenses for Fiscal Year 2006



TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

The following table presents a condensed statement of activities for the Town for the year ended June 30, 2006.

Condensed Statement of Activities

<u>Revenues</u>	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Program Revenues		
Charges for Services	\$ 20,861	\$ 23,898
Operating grants and Contributions	54,222	27,942
Capital grants and Contributions	189,576	100,000
General Revenues		
Property Taxes	536,473	525,707
Intergovernmental	291,979	273,276
Other	87,099	71,109
<u>Total Revenues</u>	<u>\$ 1,180,210</u>	<u>\$ 1,021,932</u>
<u>Expenses</u>		
Administration	\$ 205,289	\$ 266,819
Public Safety	331,744	282,272
Public Works	381,913	311,436
Miscellaneous	42,524	20,396
<u>Total Expenses</u>	<u>\$ 961,470</u>	<u>\$ 880,923</u>
<u>Increase (Decrease) in Net Assets</u>	<u>\$ 218,740</u>	<u>\$ 141,009</u>
Net Assets as of July 1, 2006 and 2005	1,533,503	1,392,494
<u>Total net assets</u>	<u>\$ 1,752,243</u>	<u>\$ 1,533,503</u>

FUND FINANCIAL STATEMENT ANALYSIS

The focus of the governmental general fund is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the governmental general funds reported an ending fund balance totaling \$148,123, a decrease of \$99,039 over the prior year as restated. The general fund as chief operating fund of the Town had an undesignated fund balance of the general fund totaled \$148,123 at June 30, 2006.

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2006 was \$1,678,184 (net of accumulated depreciation and including road construction in progress of \$145,654). The investment in capital assets includes land, buildings, vehicles, and equipment. The following is a summary of the capital assets.

Capital Assets Net of Depreciation

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 5,039	\$ 5,039
Construction in Progress	145,654	0
Buildings	121,337	124,391
Vehicles	99,913	101,792
Equipment	16,705	21,377
Street & Infrastructure	<u>1,289,536</u>	<u>1,139,880</u>
Total	<u><u>\$ 1,678,184</u></u>	<u><u>\$ 1,392,479</u></u>

LONG-TERM DEBT

At year-end, the Town had \$74,064 in outstanding debt. The Town's long-term debt consists of a capital lease liability, TrafficPax settlement obligation and accumulated unused compensated absences. Long-term debt decreased by \$32,074 from the prior year.

Long-term Liabilities

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
TrafficPax Obligation	\$ 17,500	\$ 22,000
Capital Lease Liability	46,925	72,573
Accumulated unused vacation leave	<u>9,639</u>	<u>11,563</u>
Total	<u><u>\$ 74,064</u></u>	<u><u>\$ 106,136</u></u>

TOWN OF FOREST HEIGHTS, MARYLAND
Management Discussion and Analysis
For the Year Ended June 30, 2006

TOWN CAPITAL INVESTMENTS FOR FISCAL YEAR 2005

In fiscal year 2006 the Town made \$336,654 in capital investments. Those investments included:

- Major road improvements.
- The acquisition of a refuse collection truck.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayer's, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need for additional information, contact the Treasurer's Office, Town of Forest Heights, 5508 Arapahoe Drive, Forest Heights, Maryland 20744-1998.

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Net Assets
For the Year Ended June 30, 2006

Assets

Cash & Cash Equivalents	\$	280,497
Accounts Receivable		
Real Estate Taxes		4,165
Personal Property Taxes		3,943
Utility Taxes		5,503
Cable & TV Fees		6,227
Highway User Fees		14,368
Disposal Rebates		1,999
Grants		25,000
Other Current Assets		
Prepaid Insurance		5,091
Capital Assets		
Nondepreciable assets - Land		5,039
Depreciable assets, net		1,527,491
Construction in Progress		145,654
		145,654
Total assets	\$	2,024,977

Liabilities

Accounts payable	\$	32,736
Road Construction Contract Payable		145,654
Accrued liabilities		18,829
Short Term Revolving Credit		1,451
Noncurrent liabilities		
Due within one year		31,800
Due in more than one year		42,264
		42,264
Total liabilities	\$	272,734

Net Assets

Invested in capital assets, net of related debt	\$	1,631,261
Unrestricted		120,982
		120,982
Total net assets	\$	1,752,243

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Activities
For the Year Ended June 30, 2006

<i>Function/Programs</i>	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charge for Service	Operating and Capital Grant Contributions	Governmental Activities
Governmental Activities				
Administration	\$ 205,289	\$ 10,820	\$ 25,000	\$ (169,469)
Public Safety	331,744	6,803	29,222	(295,719)
Public Works	381,913	3,238	189,576	(189,099)
Miscellaneous	42,524			(42,524)
Total Governmental Activities	\$ 961,470	\$ 20,861	\$ 243,798	\$ (696,811)

General Revenues

Real Estate Tax	\$ 536,473
Income Tax	160,254
Highway User Fees	121,729
Personal Property Tax	3,943
Cable TV Franchise Tax	23,847
Utility Tax	5,503
Waste Disposal Rebates	9,996
Miscellaneous	53,806
Total General Revenue	\$ 915,551

Change in Net Assets	\$ 218,740
Net Assets - beginning	1,533,503
Net Assets - ending	1,752,243

TOWN OF FOREST HEIGHTS, MARYLAND
 Balance Sheet
 Governmental Funds
 As of June 30, 2006

Assets

Cash & Cash Equivalents	\$	280,497
Accounts Receivable		
Real Estate Taxes		4,165
Personal Property Taxes		3,943
Utility Taxes		5,503
Cable & TV Fees		6,227
Highway User Fees		14,368
Disposal Rebates		1,999
Grants		25,000
Other Current Assets		5,091
<i>Total assets</i>	\$	346,793

Liabilities

Accounts payable		
Accounts payable	\$	32,736
Road Construction Contract Payable		145,654
Accrued liabilities		18,829
Short Term Revolving Credit		1,451
<i>Total liabilities</i>	\$	198,670

Fund Equity

Fund Balance		
Unreserved - undesignated	\$	148,123
<i>Total Liabilities and Fund Equity</i>	\$	346,793

TOWN OF FOREST HEIGHTS, MARYLAND
 Reconciliation of the Governmental Fund Balance Sheet
 To the Statement of Net Assets
 For the Year Ended June 30, 2006

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 148,123

**AMOUNTS REPORTED IN GOVERNMENTAL ACTIVITIES
 IN THE STATEMENT OF NET ASSETS ARE
 DIFFERENT BECAUSE**

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

Cost of capital assets	\$ 2,686,109	
Accumulated Depreciation	<u>(1,007,925)</u>	1,678,184

Certain receivables are offset by deferred revenue in the governmental funds since they are not available to pay for current-period expenditures. This is the amount of deferred revenue related to these receivables 0

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

Capital Lease Obligations	\$ (46,925)	
Settlement Obligation	(17,500)	
Accumulated Unused Compensated Absences	<u>(9,639)</u>	<u>(74,064)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,752,243**

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

REVENUES

Real Estate Tax	\$	536,473
Income Tax		160,254
Highway User Fees		121,729
Personal Property Tax		3,943
Cable TV Franchise Tax		23,847
Utility Tax		5,503
Operating and Capital Grants		243,798
Waste Disposal Rebates		9,996
Service Charges for Current Services		20,861
Fines and Forfeitures		28,993
Miscellaneous		24,813
		24,813
<i>Total Revenues</i>	\$	1,180,210

EXPENDITURES

Current		
Administration	\$	201,831
Public Safety		316,639
Public Works		345,982
Miscellaneous		42,524
Capital Outlays		336,654
Debt Service - Principal		32,074
Debt Service - Interest		3,545
		3,545
TOTAL EXPENDITURES		1,279,249
SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES	\$	(99,039)
FUND BALANCE - July 1, 2005 - AS PREVIOUSLY STATED		237,312
PRIOR PERIOD ADJUSTMENT - <i>Note 10</i>		9,850
		9,850
FUND BALANCE - July 1, 2005 - RESTATED		247,162
FUND BALANCE - June 30, 2006	\$	148,123

TOWN OF FOREST HEIGHTS, MARYLAND
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures, and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2006

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (99,039)

**AMOUNTS REPORTED IN GOVERNMENTAL ACTIVITIES
 IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE**

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation in the current period.

Capital Outlays	\$ 336,654	
Depreciation	<u>(50,949)</u>	
		285,705

Long-term debt repayments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of long-term debt repayments for 2006. 32,074

The proceeds from long term capital debt is reported as revenue in the governmental funds. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities. Total proceeds were: 0

Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. 0

Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance current expenses. Accrual-basis recognition is not limited by availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. This adjustment records a net decrease in "available" revenues at the end of the year over the amount at the beginning of the year 0

CHANGE IN NET ASSETS OF THE GOVERNMENTAL ACTIVITIES **\$ 218,740**

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Forest Heights, Maryland, ("Town") was incorporated in 1949 under the provisions of Maryland State Law. The Town operates under a Council-Manager form of government and provides a comprehensive range of municipal services as authorized by its Charter.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the significant accounting policies followed in the preparation of the basic financial statements:

A. Reporting entity

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions and authorities for which the Town is financially accountable. The Town has also considered all other potential organizations for which the nature and significance of their relationships with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a majority of the organization's governing body, and 1) the ability of the Town to impose its will on that organization, or 2) the potential for that organization to provide specific benefits to or impose specific financial burdens on the Town. Based on these criteria, there are no other organizations or agencies that should be included in these basic financial statements.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements: The government-wide financial statements report information on all of the non-fiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Presently, the Town does not have any business-type activities.

- **Statement of Net Assets:** This statement is designed to display the financial position of the Town as of year-end. Governmental activities are reported on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets, including infrastructure, as well as long-term debt and obligations. The Town's net assets are reported in three categories – 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Presently, the Town has no restricted assets.
- **Statement of Activities:** This statement demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include:

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements: General Fund is the main operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. This is the only major fund of the Town. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

General Fund Budget-to-Actual Comparison Statement: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. For this reason, the Town has chosen to make its General Fund budget-to-actual comparison statement part of the basic financial statements.

C. Fund Accounting

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present the major fund as a separate column on the fund financial statements. All non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The Town has one major governmental fund, the General Fund.

General Fund is the main operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. This is the only major fund of the Town. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E. Use of Estimates

The preparation of financial statements requires the Town to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Encumbrances

The Town does not use encumbrances accounting.

G. Assets, liabilities, and net assets or equity

Cash and Investments: For the purpose of the Statement of Net Assets, “cash, including time deposits,” includes all demand, savings accounts, and certificate of deposits of the Town. Investments are carried at fair value. Fair value is based on the quoted market price.

Receivables: In the government-wide statements, receivables consist of all revenues earned at year- end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, franchise taxes, and grants.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the governmental-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

Fixed Assets: The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

- **Government Wide Financial Statements**: In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2003. The Town defines capital assets as those, which have an acquisition cost or donated value of at least \$500 and an estimated life of a year or more.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. The Town defines infrastructure assets to be capitalized as any road, street, and sidewalk, which exceed a certain cost of \$ 1,000. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Buildings	25 - 50 Years
Improvements other than buildings	10 - 50 Years
Machinery and equipment	3 - 20 Years
Infrastructure	75 Years

- **Fund Financial Statements:** In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt: The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as liability in the government-wide statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest is reported as expenditures.

Compensated Absences: Vested or accumulated vacation is accrued when earned by employees and a liability is recorded in the government-wide financial statements. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits, as the Town does not pay these amounts when employees separate from service. The Town pays all outstanding annual leave at separation up to one year's accumulation. The accrual is included in the government-wide statements.

Equity Classifications:

- **Government-Wide Statements:** Equity is classified as net assets and displayed in three components:
 - (a) **Invested in Capital Assets, Net of Related Debt:** Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
 - (b) **Restricted Net Assets:** Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Unrestricted Net Assets: All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

- Fund Statements: Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

H. Revenues, Expenditures, and Expenses

Revenue Recognition-Property Taxes: Property taxes attach as an enforceable lien on property. Taxes are levied on July 1 and are due and payable at that time. All unpaid taxes levied July 1 become delinquent on October 1. Delinquency in paying taxes results in the property being put up for sale in May of the respective year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Real and personal property taxes are levied at rates enacted by the Mayor and Town Council in the annual budget on the assessed value as determined by Maryland State Department of Assessment and Taxation. The rate for the fiscal year ended June 30, 2006 was \$0.47 per \$100 of assessed value for real property and \$0.58 per \$100 of assessed value for corporate and personal property.

Expenditure/Expenses: In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, governmental funds report expenditures of financial resources.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information. Normal budgetary integration is employed as a management control device during the year for the General Fund. An annual budget is adopted for the General Fund. The annual budget is presented at a public hearing before the beginning of the year and enacted by the Town Council before July 1. In mid-year, budget revisions, if needed, are enacted by the Town Council. A final budget resolution, with revised appropriations, is adopted prior to year-end, as provided in the Town Charter. The staff as deemed necessary can make intradepartmental budget revisions. Appropriations lapse at year-end. The Town does not employ encumbrance accounting. The Town Council approved, by ordinance, the total annual budget consisting of anticipated revenues and proposed expenditures (appropriations). Any subsequent transfer of funds between major appropriations for different purposes must be approved by the Council before coming effective. All appropriations lapse at the end of the budget year to the extent that they shall not have been expended.

Actual results of operations are presented in the Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund on the non-GAAP budgetary

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements For the Year Ended June 30, 2006

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

basis of accounting in order to provide a meaningful comparison of actual results with budget estimates. There are no reconciling items between budgetary basis and GAAP basis for the year ended June 30, 2006.

NOTE 3. CASH AND INVESTMENTS

The investment policy of the Town indicates funds shall be invested in the following:

- 1) U.S. Treasury obligations
- 2) U.S. Government agency paper,
- 3) banker acceptance guaranteed by banking institution,
- 4) Money market mutual funds that restrict investments to short-term U.S. Treasury and agency securities
- 5) State or local government agency collective investment pools, where the investment policies are compatible with those of the Town. The policy also requires that deposits with financial institutions be adequately collateralized.

The Town's deposits at June 30, 2006 are all held in bank accounts insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the bank. At year-end, the carrying amount of the Town's deposits was \$280,497 and the bank balance was \$335,694.

NOTE 4. DUE FROM OTHER GOVERNMENTS AND TAXES RECEIVABLE

The June 30, 2006 general fund balance due from other governments and tax receivable is as follows:

	2006	2005
State Of Maryland		
Highway User Tax	\$ 14,368	\$ 14,835
State Police Grant FY04	0	5,673
Prince George's County		
Grant Receivable	25,000	54,801
Real property tax	4,165	3,864
Personal Property, Cable TV, and Utilities tax	15,673	3,734
Disposal Fee	1,999	1,999
Total	<u>\$ 61,205</u>	<u>\$ 84,906</u>

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions Completions	Retirements Adjustments	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,039			\$ 5,039
Construction in Progress		\$ 145,654		145,654
Total Capital Assets not being Depreciated	<u>5,039.00</u>	<u>145,654</u>		<u>150,693</u>
Capital assets being depreciated				
Improvements	27,829			27,829
Buildings	243,019			243,019
Infrastructure	1,878,925	175,000		2,053,925
Vehicles	164,424	16,000		180,424
Equipment	30,219			30,219
Total Capital Assets being Depreciated	<u>2,344,416</u>	<u>191,000</u>		<u>2,535,416</u>
Less accumulated depreciation for				
Improvements	27,829			27,829
Buildings	118,628	3,054		121,682
Infrastructure	739,045	25,344		764,389
Vehicles	62,632	17,879		80,511
Equipment	8,842	4,672		13,514
Total Accumulated Depreciation	<u>956,976</u>	<u>50,949</u>		<u>1,007,925</u>
Total Capital Assets being Depreciated, Net	<u>1,387,440</u>	<u>140,051</u>		<u>1,527,491</u>
Government Activities Capital Assets, Net	<u>\$1,392,479</u>	<u>\$ 285,705</u>	<u>\$</u>	<u>\$ 1,678,184</u>

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

<u>Government activities</u>	
General government and administration	\$ 3,003
Public safety	13,333
Public works	<u>34,613</u>
	<u>\$ 50,949</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 6. COMMITMENTS

In September 2004, the Town obtained a short-term loan in the amount of \$50,000 maturing August 1, 2005 with the interest rate adjusted monthly from 3.072% to 4.022% annual percentage rate from the Bank of America to fund contractor progress billings before receiving reimbursement under the Town's "Accessibility Grant." The loan was paid in full in August 2005.

At June 30, 2006, the Town had a short-term liability to the WP Donaldson Company for road improvements in the amount of \$145,654.

Copier Operating Lease: On July 1, 2004, the Town entered into a 48 month operating lease for a copy center which provided for future fixed minimum rents as follows:

<u>Years ending June 30th</u>	<u>Lessor Konica Minolta</u>
2007	\$ 2,856
2008	2,856
TOTALS	\$ 5,712

Capital Lease Liabilities:

- In October 2004, the Town entered into a three-year capital lease for the purchase of two Ford Crown Victoria police sedans. The annual payments include interest at a rate of 4.65%. The balance at June 30, 2006 was \$16,625.
- In January 2005, the Town entered into a four-year capital lease for the purchase of a multi-purpose truck for Public Works. The annual payments include interest at a rate of 5%. The balance at June 30, 2006 was \$30,300.

TraffiPax Settlement Obligation:

In November 2003, the Town entered into an agreement with TraffiPax, Inc. to settle its claim against the Town arising from the red light camera program (*TraffiPax, Inc. v. Town of Forest Heights in the Circuit Court for Prince George's County, Case No. CAL02-17506*). The settlement provided that the Town pay TraffiPax \$25,000 over one year starting July 1, 2004. However, by subsequent agreement, the Town has paid \$375 per month without interest starting in December 2004. The balance at June 30, 2006 was \$17,500.

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 6. COMMITMENTS (CONTINUED)

Changes in long-term debt. The following is a summary of changes in long-term debt for the year ended June 30, 2006.

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006	Amounts Due Within One Year
TraffiPax Settlement	\$ 22,000		\$ 4,500	\$ 17,500	\$ 4,500
Lease payable	72,574		25,649	46,925	24,890
Accrued Vacation	11,563	1,225	3,150	9,639	2,410
	<u>\$ 106,137</u>	<u>1,225</u>	<u>\$ 33,299</u>	<u>\$ 74,064</u>	<u>\$ 31,800</u>

NOTE 7. CONTINGENCIES

The Town receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements, and are subject to audit by grantor agencies. Any disallowed expenditure resulting from such audits could become a liability of the General Fund or other applicable funds. In the opinion of Town management, no material refunds will be required as a result of expenditures disallowed, if any, by the grantor agencies.

NOTE 8. PENSION PLANS

Single Employer Profit Sharing Plan. Effective July 1, 1997, the Town adopted a Money Purchase Pension Plan administered by the Mayor and Council collectively known as the Trustees. All elected officials and all other employees who work at least 501 hours or complete minimum of 6 months of service and/or attain the age of 20-1/2 are eligible to participate in the plan. The vesting period of this plan is six years with 100% vested and non-forfeitable interest in the Employer Account. The normal retirement age is 65. In the event of resignations prior to normal age, participants will be vested and have a forfeiture interest in a percentage of the Employer account provided that the years of service for vesting have been met. The Town contributions to the plan net of forfeitures amounted to \$7,479 for the year ended June 30, 2006. The Town has no liability for post retirement benefits at June 30, 2006.

NOTE 9. RISK OF LOSS

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The general liability risks are financed through the Town's participation in

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE 9. RISK OF LOSS (CONTINUED)

the Maryland Local Government Insurance Trust (MLGIT), a public entity risk pool currently operating as a common risk management and insurance program for municipal governments in the State of Maryland. The Town pays an annual premium of approximately \$26,602 to MLGIT for this general insurance coverage.

The agreement with the MLGIT provides that the Town will be self-sustaining through member premiums and will re-insure through commercial companies for claims in excess of \$1,000,000. The Town continues to carry commercial claims resulting from these risks. However, it has not exceeded the commercial insurance coverage. Nor have significant reductions to insurance coverage occurred, in any of the past two fiscal years.

NOTE 10. RESTATEMENT OF NET ASSETS

Net assets of the general fund have been restated as of the beginning of the year resulting in a net increase of net assets in the amount of \$9,850 at June 30, 2005.

	Governmental Activities
Previously Stated Net Assets as of June 30, 2005	\$ 237,312
Prior Period Adjustments	
Reclassification of prior year deferred income	9,850
Restated Net Assets as of June 30, 2005	\$ 247,162

NOTE 11. SUBSEQUENT EVENTS

On February 22, 2007, Myles Spires, Jr., the suspended Mayor of Forest Heights, was indicted (*The State of Maryland vs. Myles Spires, Jr. in the Circuit Court for Prince George's County no. CT070356X*).

On October 2, 2007, Myles Spires was convicted on count 1, "Theft over \$500" and count 3, "Misconduct in Office." As part of his sentence, Mr. Spires was to pay the Town of Forest Heights \$2,500 in restitution which he remitted in April 2008. Mr. Spires is appealing his conviction.

REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006

TOWN OF FOREST HEIGHTS, MARYLAND
Schedule of Revenues
Budget and Actual – Non-GAAP Budgetary Basis
GENERAL FUND
For the Year Ended June 30, 2006

	Original Budget	Actual	Favorable (unfavorable)
Taxes			
Town Real Estate Taxes	\$ 529,306	\$ 536,473	\$ 7,167
Utility Taxes	18,807	5,503	(13,304)
Tangible Personal Property Taxes	9,875	3,943	(5,932)
Interest - Town Real Estate Taxes	600		(600)
	558,588	545,919	(12,669)
Licenses and Permits			
Cable TV Franchise Fee	24,000	23,847	(153)
Building Permits	2,000	95	(1,905)
	26,000	23,942	(2,058)
Intergovernmental			
Income Taxes	169,565	160,254	(9,311)
Highway User Revenue	138,112	121,729	(16,383)
Infrastructure Grant	175,000	183,587	8,587
Grants: Capital, Historic, & Liveable Community	188,000	25,000	(163,000)
State Aid to Police	27,544	29,222	1,678
Parks & Planning	10,000	5,989	(4,011)
Rebates Waste Disposal	9,000	9,995	995
	717,221	535,776	(181,445)
Fines and Forfeitures			
Red Light Camera	26,250	20,578	(5,672)
Parking Fines & Vehicle Release	9,032	8,415	(617)
	35,282	28,993	(6,289)
Charges for Services			
Municipal Building Rental	8,258	10,726	2,468
Disposal of Metal Items	4,200	3,103	(1,097)
Disposal of Tires	97	135	38
Grass Cutting	1,500	0	(1,500)
Accident Reports	96	35	(61)
Fingerprinting	15,600	6,768	(8,832)
	29,751	20,767	(8,984)
Miscellaneous Revenue			
Investment Interest Income	1,450	885	(565)
Miscellaneous	11,148	23,928	12,780
	12,598	24,813	12,215
TOTAL REVENUES	\$ 1,379,440	\$ 1,180,210	\$ (199,230)

TOWN OF FOREST HEIGHTS, MARYLAND
Schedule of Expenditures
Budget and Actual – Non-GAAP Budgetary Basis
GENERAL FUND
For the Year Ended June 30, 2006

	Original Budget	Actual	Favorable (unfavorable)
Administration Expenses			
Salaries	\$ 94,769	\$ 86,096	\$ 8,673
Operating Expenses	128,121	115,735	12,386
Capital Outlay	82,000	0	82,000
	<u>304,890</u>	<u>201,831</u>	<u>103,059</u>
Public Safety			
Salaries	240,184	193,342	46,842
Operating Expenses	86,799	123,297	(36,498)
Capital Outlay	6,000	0	6,000
	<u>332,983</u>	<u>316,639</u>	<u>16,344</u>
Public Works			
Salaries	82,786	80,129	2,657
Operating Expenses	202,740	265,853	(63,113)
Capital Outlay	421,000	336,654	84,346
	<u>706,526</u>	<u>682,636</u>	<u>23,890</u>
Miscellaneous			
Workmen's Compensation	6,000	12,279	(6,279)
Social Security Contribution	28,041	27,580	461
Unemployment Insurance	1,000	2,665	(1,665)
Debt Service - Principal	0	32,074	(32,074)
Debt Service - Interest	0	3,545	(3,545)
	<u>35,041</u>	<u>78,143</u>	<u>(43,102)</u>
TOTAL EXPENDITURES	<u>1,379,440</u>	<u>1,279,249</u>	<u>100,191</u>
SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>\$ 0</u>	<u>\$ (99,039)</u>	<u>\$ (99,039)</u>

TOWN OF FOREST HEIGHTS, MARYLAND
Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

BUDGETARY INFORMATION

Formal budgetary integration is employed as a management control device during the year for the General Fund. The Town Council approved, by ordinance, the total annual budget consisting of anticipated revenues and proposed expenditures (appropriations). The Council must approve any subsequent transfer of funds between major appropriations for different purposes before becoming effective. All appropriations lapse at the end of the budget year to the extent that they shall not have been expended.

Management represents that there were no other revised budgets other than the budget initially approved for fiscal year 2006.

RECONCILIATION OF BUDGETARY BASIS AND GAAP

Actual results of operations are presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Approved Budget and Actual – General Fund on the non-GAAP budget basis of accounting in order to provided a meaningful comparison of actual results with budget estimates. Under the budget basis, the budgeted revenue includes an appropriation of fund balance as a revenue source.

However, there was no revised budget for fiscal year 2006. In some instances, the changes in revenues, capital outlays and expenses that occurred were not formally supported by a revised budget.