

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**



Town of Forest Heights
Forest Heights, Maryland

FRANCIS J. DISALVO CERTIFIED PUBLIC ACCOUNTANT

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FRANCIS J. DiSALVO

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Town Council
Town of Forest Heights, Maryland

I have audited the accompanying financial statements of the governmental activities and the general fund of the Town of Forest Heights, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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 general fund of the Town of Forest Heights, Maryland, as of June 30, 2016, and the respective changes in financial position 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 14 and 37 and 38 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2016, on my consideration of the Town of Forest Heights, Maryland's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Forest Heights, Maryland's internal control over financial reporting and compliance.



Suitland, Maryland
November 30, 2016

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

As management of the TOWN OF FOREST HEIGHTS, we offer readers of the TOWN OF FOREST HEIGHTS' financial statements this narrative overview and analysis of the financial activities of the TOWN OF FOREST HEIGHTS for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the TOWN OF FOREST HEIGHTS' financial statements which immediately follow this section.

Financial Highlights

- The assets of the TOWN OF FOREST HEIGHTS exceeded its liabilities at the close of the most recent fiscal year by \$7,045,917 (*net position*). The vast majority of the Town's net assets of \$5,001,894, net of related debt, are capital assets which generally do not generate revenue nor can they be sold to generate liquid capital. Of the remaining \$2,044,023 in net position, \$1,974,839 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The TOWN OF FOREST HEIGHTS' total net position increased by \$583,717.
- At the close of the current fiscal year, the TOWN OF FOREST HEIGHTS general fund reported a fund balance of \$2,045,132, an increase of \$342,085 in comparison with the prior year. Approximately 36% of this amount (\$731,461) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, the unassigned fund balance (the combined fund balance less the total of the *non-spendable, committed, and assigned* components of *fund balance*) for the general fund was \$731,461 or approximately 30% of total general fund expenditures.
- The TOWN OF FOREST HEIGHTS' long-term debt consists of (i) accumulated unused compensated absences which experienced a net decrease of \$3,106 from the prior year to \$29,212 at year-end: (ii) and local government bond issue of \$480,500.
- Awareness of the TOWN OF FOREST HEIGHTS' speed camera program continued to improve public safety on Indian Head Highway and Livingston Road. The Town experienced an increase of 8% in fines and fees from \$879,926, in fiscal year 2015 to \$951,728 in the current fiscal year.

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 required 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.

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

Government-wide financial statements (continued)

The statement of net position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during fiscal year 2016. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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. *The Town has no business-type activities. 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 only fund, the General Fund (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 has one major fund, the general fund.*

- General fund: The Town's basic services are included in the general fund, which focus on how cash and other financial assets can be readily converted to cash flow in and out and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. 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 in 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.

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

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 required supplementary information. The town adopts an annual budget for its general fund. A budgetary comparison 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, 2016

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.

	GOVERNMENT-WIDE STATEMENTS	FUND FINANCIAL STATEMENTS GOVERNMENTAL FUNDS
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 position ➤ 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, 2016

Government-wide Financial Analysis

As noted earlier, the net position may serve over time as a useful indicator of a government's financial position. The Town's combined assets exceeded liabilities by \$7,045,917 at the close of the fiscal year ended June 30, 2016.

The Town's net position 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 Position for the Town as of June 30, 2016 and 2015.

Condensed Statement of Net Position

	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 2,957,619	\$ 2,025,351
Capital Assets - Net of Depreciation	5,001,894	4,786,336
Total assets	\$ 7,959,513	\$ 6,811,687
Liabilities		
Long-term liabilities outstanding	\$ 509,713	\$ 32,318
Other Liabilities	403,883	317,169
Total liabilities	\$ 913,596	\$ 349,487
Net Position	\$ 7,045,917	\$ 6,462,200
Net Position		
Invested in capital assets	\$ 5,001,894	\$ 4,786,336
Restricted	69,184	48,813
Unrestricted	1,974,839	1,627,051
Total Net Position	\$ 7,045,917	\$ 6,462,200

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

The Town's revenue totaled \$2,930,256 (see Chart A). Speed Camera fines and other fines and fees comprised 33% of the Town's revenue. 34% of the Town's revenue comes from real property taxes, and 43 cents of every dollar comes from some type of tax (see Chart A). The Town's expenses cover a range of services, with about 44% related to public safety, 29% to public works and 27% to administration (see Chart B).

CHART A

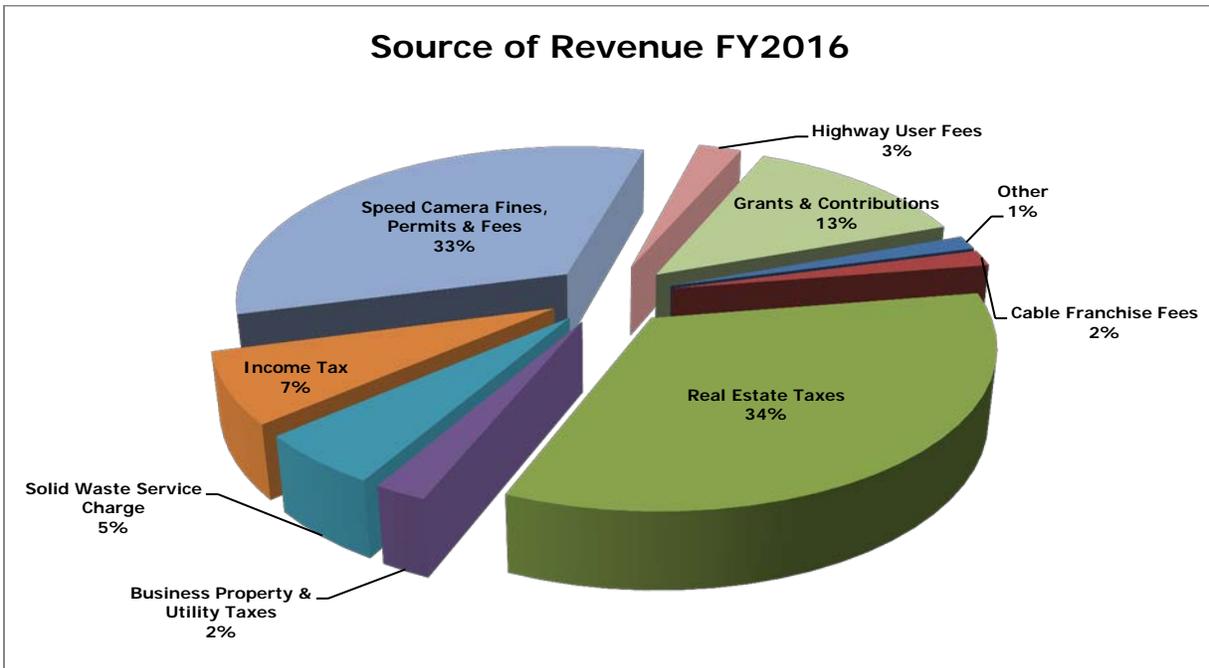
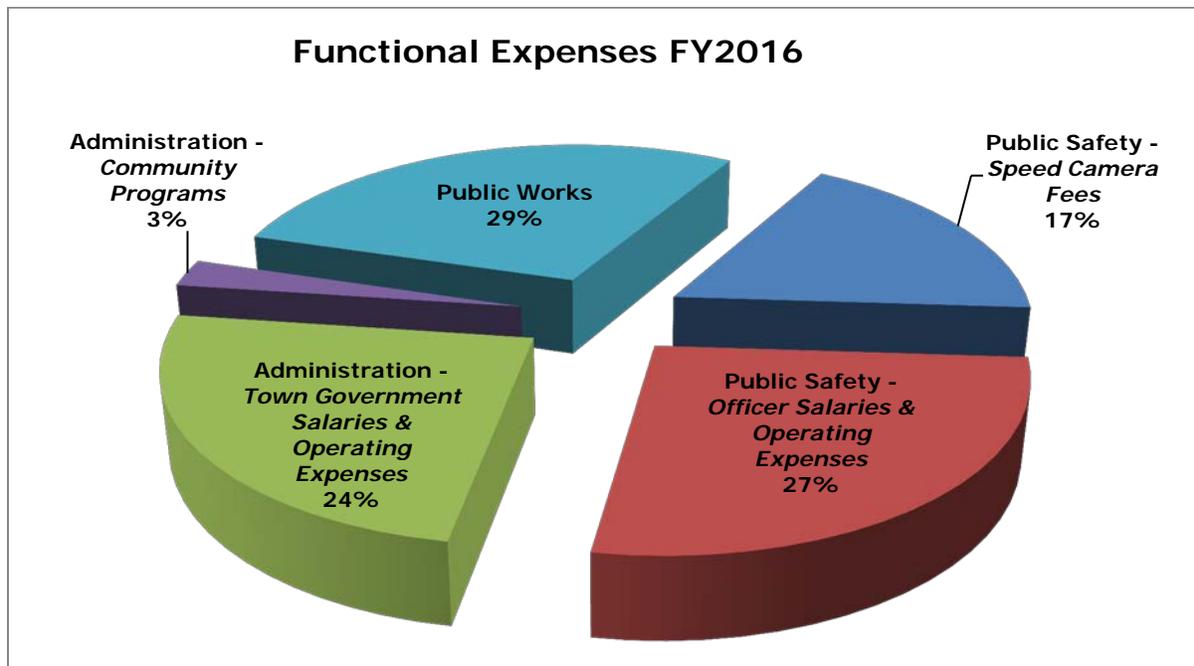


CHART B



TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

The following table presents a condensed statement of activities and changes in net position for the Town for the years ended June 30, 2016 and 2015.

Condensed Statement of Activities and Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues		
Program Revenues		
Charges for Services	\$ 1,154,289	\$ 1,094,163
Operating grants and Contributions	168,775	204,327
Capital grants and Contributions	210,701	71,447
General Revenues		
Property Taxes	1,050,964	1,039,209
Intergovernmental	281,935	266,207
Franchise Fees	47,517	46,584
Other	16,075	20,311
Total Revenues	\$ 2,930,256	\$ 2,742,248
Expenses		
Administration	\$ 633,725	\$ 657,189
Public Safety	1,040,879	1,051,845
Public Works	671,935	578,351
Total Expenses	\$ 2,346,539	\$ 2,287,385
Increase in Net Position	\$ 583,717	\$ 454,863
Net Position - <i>beginning</i>	6,462,200	6,007,337
Net position - ending	\$ 7,045,917	\$ 6,462,200

FUND FINANCIAL STATEMENT ANALYSIS

The focus of the governmental funds 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the general fund, the chief operating fund of the Town, reported an ending fund balance of \$2,045,132, an increase of \$342,085 over the prior year.

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's final budget differs from the original budget in that it contains Town Council approved supplemental appropriations and transfers between activities. The amount of transfers between the major expenditure functions was relatively minor.

The supplemental appropriations can be briefly described as follows: During the fiscal year, the Town revised the originally adopted budget. Generally, budget amendments fall into one of three categories:

- Amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available;
- Amendments made to recognize new funding amounts from external sources, such as federal and state grants; and
- Increases in appropriations that become necessary to maintain services.

The most significant difference between estimated revenues and actual revenues were as follows: *Increases – Income Taxes: \$20,298; Highway User Revenue: \$52,488; Speed Camera Fines and Fees: \$192,622; and Municipal Building Rental: \$11,104; and Decreases: Grants and other Funding for Street Improvements could not be recognized as received due to delays in construction: \$1,099,067.*

Actual expenditures and other financing uses were \$1,878,862 less than the final amended budget. These differences can be briefly summarized as follows:

- Administration expenditures were \$69,272 less than expected due to lower than expected salaries, communications, general operating costs, and investments in equipment.
- Public Safety expenditures were \$32,800 less than expected due to lower than expected general operating expenses.
- Public Works expenditures were \$1,722,976 less than expected due primarily to less than expected capital outlay expenditures of \$1,674,128 due to construction delays with salaries and general operating expenses comprising the balance.
- Miscellaneous expenditures were \$53,814 less than expected due primarily to the reduction in employee fringe benefits which is a reflection of reduced spending in salaries in all departments.

Revenues, excluding other financing sources amounted to \$2,748,361 in fiscal year 2016, an increase of almost \$12,124 from fiscal year 2015. General property taxes produced \$5,712 more revenue than fiscal year 2015 due to the stabilization in the real estate assessable tax base.

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The Town's investment in capital assets for its governmental activities as of June 30, 2016 was \$5,001,894 (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, vehicles, equipment, streets and infrastructure. The following is a summary of the capital assets for the years ended June 30, 2016 and 2015.

Capital Assets Net of Depreciation

	Governmental Activities	
	2016	2015
Land	\$ 280,230	\$ 76,741
Construction in Progress	777,639	703,017
Buildings	722,691	742,692
Vehicles	70,033	70,008
Equipment	166,052	147,842
Streets & Infrastructure	2,985,249	3,046,036
Total	\$ 5,001,894	\$ 4,786,336

- Under the Governmental Activities Capital Assets, the balance of \$777,639 for Construction in Progress includes: acquisition of the Modoc building, \$133,133, engineering and design fees for the (i) reconstruction of North Huron Drive, \$206,307, and (ii) the Rolph Drive drainage improvement, \$239,948; architectural plans for the municipal and Modoc buildings, \$50,496, and Green storm water infrastructure design, \$147,755.

Long Term Debt: The long-term debt considered a liability of governmental activities increased in FY 2016 by \$477,394. Included in this increase is the issuance of additional debt for roadway improvements.

Long-term Liabilities

	Governmental Activities	
	2016	2015
Accumulated Unused Compensated Absences	\$ 29,212	\$ 32,318
General Obligation Bonds Payable	480,500	-
Total	\$ 509,712	\$ 32,318

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

HIGHLIGHTS

Forest Heights continues to lead the County as a "Trend Setter" while addressing many infrastructure problems that were neglected over the past decades. Fiscal year 2017 is expected to be even more productive. Highlighted successes in fiscal year 2016 include the following:

- The revision of the Public Safety Department's General Orders, the police operations manual, was approved.
- Re-submission of filings to annex two areas adjacent to the Town: National Park Service land of approximately 447 acres and approximately 290 acres of Federal and State land. The annexation rulings are currently being appealed.
- A Local Impact Grant of \$23,000 was received from the County and is to be used for public safety projects.
- Two electric vehicles were purchased with a grant from the Maryland Department of Energy to be used by the Public Works Department and Code Enforcement. The purchase of these vehicles will lower the Town's usage of fossil fuel.
- The new public safety and public works facility should be completed by January 31, 2017.
- Renovation of the Municipal Center's first floor should be completed by April 30, 2017.
- Land was acquired next to Henry's Soul Food Restaurant to develop a park for various community activities such as a farmer's market, community yard sales, musical events, etc.
- The County donated two parcels of surplus property located near the Forest Heights Elementary School to the Town.
- Over 350 people attended the Annual Forest Heights Day and Parade.
- The first Annual Volunteer Appreciation Steak Dinner was attended by over 70 volunteers.
- A new rear handicap ramp and steps were completed at the Municipal Center.
- The Town's Sustainability Plan was updated to include the plans for annexation, code enforcement and the community garden.
- A free shredding program for residents is continued to be provided in the spring and fall.
- Plans were developed to promote the concept of having a walkable community.
- The Forest Heights Green Team implemented the development of a community garden at the old pumping station on North Huron Drive; this achievement helped earn a portion of the 160 points toward the Sustainable Maryland Certification.
- Committees were developed to coordinate the development of the Scholastic Achievement and the Theater Programs for our youth.
- Over 100 people were helped by the expungement program coordinated by Forest Heights in partnership with the Prince George's County Attorney Association.

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

HIGHLIGHTS (CONTINUED)

- The reconstruction of Rolph Drive should be completed by June 30, 2017.
- Approximately \$25,000 was received from the Maryland Emergency Management Agency to help offset the excessive costs of snow removal due to the January 2016 snow storm.
- The Forest Heights Permitting Program now addresses various utility companies that perform work in Forest Heights.
- As a result of the Town's continued personnel training program the Town Clerk received the Certified Municipal Clerk designation from the International Institute of Municipal Clerks.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

- The unemployment rate for Prince Georges County from the Maryland Department of Labor, Licensing and Regulations for September 2016 is 4.1%. This is higher than the State average of 4.0% but is lower than the national average of 5.0%.
- Efforts have begun to advance the possible development of the Habib property next to Cree Drive, as well as the Lazerio property next to Forest Heights Elementary School.
- Additional funding will be sought to complete the "Safe Routes to School" sidewalk project and to complete reconstruction of North Huron Drive by June 30, 2018.
- Continued efforts to negotiate Comcast Peg Grant Fees will enable cable access programming and the construction of a media studio for the Town.
- The Town opted out of Prince Georges County Department of Housing and Community Development (DHCD) for the next three years and joined the state DHCD program. The state's program allows for a more competitive grant process that if awarded will allow the Town to address much needed infrastructure repair and upgrading.
- With MGM's planned casino opening in December 2016, efforts continue to obtain a share of impact fees paid Prince George's County. The Town is seeking a share literally because of the "impact" that the Casino has on our community in the form of increased traffic and need for emergency response. The agreement between Worchester County and municipalities in that county are of particular interest to the Town. There are records dating back to the 1960's that indicate the Town previously received impact fees for gaming at Rosecroft Raceway.
- The Town is partnering with the Town of North Beach in the "Maryland Town Manager Circuit Rider Program." This program provides additional resources which includes grant writing, management and economic development skills at a savings to the Town.
- Highway User Revenue funds have continued to rise which allows the Town to address street and road improvements within the town.

TOWN OF FOREST HEIGHTS, MARYLAND

Management Discussion and Analysis

For the Year Ended June 30, 2016

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES (CONTINUED)

These factors, as well as many others, were considered in preparing the Town's budget for fiscal year 2017. The Town of Forest Heights has again taken a very conservative approach when considering the fiscal year 2017 budget. Although, the Town approved different tax rates for residential and commercial real estate, the Town Council agreed to keep the residential rate the same and the commercial rate consistent with the recommended Maryland constant yield tax rate. The Town included new capital expenditures in the budget largely for street improvements. These capital expenditures are to be funded with grant and bond proceeds in addition to Town funds.

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 additional information, contact the Treasurer's Office, Town of Forest Heights, 5508 Arapahoe Drive, Forest Heights, Maryland 20745-1998 or call (301)839-1030.

TOWN OF FOREST HEIGHTS, MARYLAND

Statement of Net Position

As of June 30, 2016

Assets

Cash & Cash Equivalents	\$	2,284,220
Real Estate Taxes Receivable - net		4,601
Personal Property Taxes Receivable - net		4,692
Grants Receivable		5,107
Franchise Fees Receivable		12,038
Due from other Governments		85,941
Speed Camera Fines & Fees - <i>Due from Vendor</i>		18,886
Other Receivables		19,095
Bond Proceeds Receivable		502,024
Prepaid Expenses		19,083
Deposits		1,932
Capital Assets		
Nondepreciable assets - <i>Land & Construction in Progress</i>		1,057,869
Depreciable assets, net		3,944,025
Total assets	\$	7,959,513

Liabilities

Accounts Payable	\$	94,844
Revolving Credit Accounts		1,105
Unearned Income		275,623
Accrued Liabilities		28,812
Rental Deposits		3,500
Noncurrent Liabilities		
Due within one year:		
Long-term debt payable		28,500
Due in more than one year:		
Long-term debt payable		452,000
Compensated Absences		29,212
Total liabilities	\$	913,596

Net Position

Invested in capital assets	\$	5,001,894
Restricted		69,184
Unrestricted		1,974,839
Total Net Position	\$	7,045,917

TOWN OF FOREST HEIGHTS, MARYLAND

Statement of Activities

For the Year Ended June 30, 2016

<i>Function Programs</i>	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charge for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Administration	\$ 633,725	\$ 25,522	\$ 38,721	\$ 1,850	\$ (567,632)
Public Safety	1,040,879	967,122	44,906	-	(28,851)
Public Works	671,935	161,645	156,786	208,851	(144,653)
<i>Total Governmental Activities</i>	<u>\$ 2,346,539</u>	<u>\$ 1,154,289</u>	<u>\$ 240,413</u>	<u>\$ 210,701</u>	<u>(741,136)</u>

General Revenues

Real Estate Tax	988,319
Income Tax	210,298
Cable Franchise Fees	47,517
Tangible Personal Property & Utility Taxes	62,646
Unrestricted Investment Income	2,444
Miscellaneous	13,629
Total General Revenue	<u>1,324,853</u>
Change in Net Position	583,717
Net Position - beginning	<u>6,462,200</u>
Net Position - ending	<u>\$ 7,045,917</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Balance Sheet

Governmental Funds – General Fund

As of June 30, 2016

Assets

Cash & Cash Equivalents	\$ 2,284,220
Real Estate Taxes Receivable - net	4,601
Personal Property Taxes Receivable - net	4,692
Grants Receivable	5,107
Franchise Fees Receivable	12,038
Due from other Governments	85,941
Speed Camera Fines & Fees - <i>Due from Vendor</i>	18,886
Other Receivables	19,095
Prepaid Expenses	19,083
Deposits	1,932

Total assets \$ 2,455,595

Liabilities

Accounts payable	\$ 94,844
Revolving Credit Accounts	1,105
Unearned Grant Income	275,623
Deposits	3,500
Accrued liabilities	28,812

Total liabilities \$ 403,884

Deferred Inflows of Resources

Unavailable revenue-property taxes	\$ 6,579
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Fund Balances

Nonspendable	\$ 19,083
Restricted	69,184
Committed	380,722
Assigned	844,682
Unassigned	731,461
Total fund balances	\$ 2,045,132

**Total Liabilities, Deferred Inflows of Resources,
and Fund Balance** **\$ 2,455,595**

TOWN OF FOREST HEIGHTS, MARYLAND
 Reconciliation of the Governmental Fund Balance Sheet
 To the Statement of Net Position
 For the Year Ended June 30, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS **\$ 2,045,132**

AMOUNTS REPORTED AS GOVERNMENTAL ACTIVITIES
 IN THE STATEMENT OF NET POSITION (PAGE 14) ARE
 DIFFERENT BECAUSE

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	\$ 6,899,994	
Accumulated Depreciation	<u>(1,898,100)</u>	5,001,894

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

General obligation bonds		21,524
Deferred inflows of resources		6,579
Accumulated unused compensated absences		<u>(29,212)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 7,045,917**

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Year Ended June 30, 2016

REVENUES

Property Taxes - Net	\$ 1,049,520
Income Tax	210,298
Cable TV Franchise Fee	47,517
Operating and Capital Grants	270,664
Service Charges for Current Services	187,167
Fines and Forfeitures	15,394
Speed Camera Fines & Fees	951,728
Investment Income	2,444
Miscellaneous	13,629
Total Revenues	\$ 2,748,361

EXPENDITURES

Current	
Administration	\$ 575,222
Public Safety	871,011
Public Works	508,580
Miscellaneous - <i>Payroll Taxes & Employee Benefits</i>	224,849
Capital Outlays	193,808
Debt Service	
Principal Payments	21,524
Interest and Fiscal Charges	11,562
Total Expenditures	2,406,556
Surplus of Revenues Over Expenditures	341,805
Other Financing Sources	
Sale of Capital Assets	280
Net Change in Fund Balance	342,085
Fund Balance - July 1, 2015	1,703,047
Fund Balance - June 30, 2016	\$ 2,045,132

TOWN OF FOREST HEIGHTS, MARYLAND
 Reconciliation of the Government Fund,
 Statement of Revenues, Expenditures,
 And Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2016

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 342,085**

AMOUNTS REPORTED AS 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	\$ 193,808	
Depreciation	<u>(154,883)</u>	38,925

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on the net position.

Principal payment on general obligation debt:	21,524
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In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures are measured by the amount of financial resources used (essentially the amounts actually paid). This year, compensated absences earned were less than amounts used.

3,106

In the statement of activities, the loss on the disposition of assets is reported, where in the governmental funds, the entire proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the costs of the capital asset sold less any accumulated depreciation.

(3,816)

In the statement of activities, the fair value of donated land is reported as revenue, where in the governmental funds, the value is not reported. Thus, the change in net position differs from the change in fund balance by the fair value of the donated land.

180,450

Revenues that do not provide current financial resources are not reported as revenue in the governmental funds. The amount of change in unavailable revenue is not reported in the statement of activities.

1,443

CHANGE IN NET POSITION OF THE GOVERNMENTAL ACTIVITIES **\$ 583,717**

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

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-Mayor 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. The Government Accounting Standards Board (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 the ability of the Town to impose its will on that organization, or 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. 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 Position: 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 position is reported in three categories – 1) invested in capital assets, 2) restricted, and 3) unrestricted. The Town generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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:
 - 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 only operating fund of the Town. All general tax revenues and other receipts that are not restricted by law or contractual agreement are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs are paid from the General Fund.

- General Fund Budget-to-Actual Comparison: 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. The Town has reported its General Fund budget-to-actual comparison as required supplementary information.
- Fund Accounting: 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.

The General Fund is the only operating fund of the Town. This fund is used to account for all financial resources. 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 are paid from the General Fund.

C. 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.

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net 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 Town also prepares its budget on a basis consistent with its governmental fund financial statements.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. All other governmental fund revenues are recognized when received.

D. 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.

E. Assets, liabilities, and net position or equity

Cash and cash equivalents: For the purpose of the Statement of Net Position, cash includes all demand and savings accounts of the Town.

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

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Deferred Inflows: In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under the modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet.

The governmental funds (general fund) report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental fund were as follows:

<u>Deferred Inflows</u>	<u>Unavailable</u>
Real Property Taxes	\$ 2,570
Personal Property Taxes	4,009
Total Deferred Inflow	<u>\$ 6,579</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **Government Wide Financial Statements**: In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital 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 one 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 cost of \$500. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

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, capital 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 and/or fund financial statements. All long-term debt to be repaid from governmental resources is reported as a 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 principal and interest is reported as expenditures.

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 outstanding annual leave at separation up to 156 hours accrued. The liability is included in the government-wide statements, and reported as a long term liability.

Equity Classifications:

- Government-Wide Statements: Equity is classified as net position and displayed in three components:

Invested in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the net outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: 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. The restricted net asset balance reported consists of the Forest Heights Dictionary Program (\$178) and post-secondary education (PEG) grants of (\$69,006).

Unrestricted Net Assets: All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

- Fund statements: Governmental fund equity is classified as fund balance. The Town classifies governmental fund balances as follows:

Non-spendable: Amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints. The non-spendable fund balance reported in the General Fund consists of prepaid costs (\$19,083).

Restricted: Amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The restricted fund balance reported in the General Fund consists of the Forest Heights Dictionary Program (\$178) and post-secondary education (PEG) grants of (\$69,006).

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Committed: Amounts constrained for a specific purpose by the governing body using its highest level of decision making authority. These constraints can only be removed or changed by the same governing body using its decision making authority to reverse a decision. Action to constrain resources should occur prior to end of fiscal year, although the exact amount may be determined subsequent to year end.

Committed fund balance for governmental funds is further classified as follows:

<u>Committed for:</u>	
Capital Investments - Streets & Equipment	\$ 280,482
Economic Stabilization (Rainy Day) Fund	54,285
Professional Fees	14,000
Contracted Street Repairs	10,500
Park and Community Garden	19,618
Public Health - Mosquito Control	1,400
Senior Exercise Program	437
Total	<u>\$ 380,722</u>

Assigned: Resources that can only be used for specific purposes due to the Town's intent but are not restricted or committed and may be subject to change by the Town Council. The Town Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Assigned fund balance for governmental funds is further classified as follows:

<u>Assigned for:</u>	
Subsequent Year's Budget	\$ 266,482
Capital Outlay - Tree Boxes - Rolph Drive	158,200
Public Safety and Public Works Building Renovation	420,000
Total	<u>\$ 844,682</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned: Amounts available for any purpose that are not classified as non-spendable, restricted, committed, or assigned.

The Mayor and Town Council of Forest Heights is the governing body with the highest level of decision-making authority relative to the Town of Forest Heights' fund balances. The Mayor and the Town Council of Forest Heights through formal action is the only body that can commit or assign fund balances. It is the Mayor and Town Council's policy to first use the restricted fund balances for expenses incurred for which both restricted and unrestricted fund balances are available unless a local match is required.

Where a local match is required, the expense is allocated to restricted and unrestricted fund balances based on the required percentages. In the event that expenditures are made from multiple unrestricted fund balance classifications, the order of fund spending shall be as follows: Committed, Assigned, and Unassigned. The Town has established through ordinance a "rainy day" fund whose use is clearly defined for specific situations that do not occur routinely. At June 30, 2016, \$54,285 was committed for the "rainy day" fund. The Town does not have a minimum fund balance policy.

F. Revenues, Expenditures, and Expenses

Revenue Recognition-Property Taxes: Real and personal property taxes are levied at a rate consistent with State law requiring that the State Department of Assessments and Taxation's constant yield tax rate cannot be exceeded without notice to the public of such an intent, and then, only after public hearings are held. The Town Council levies the rate, adopted in the appropriations ordinance, based on the assessed value of the property as determined by the State Department of Assessments and Taxation.

By action of the Maryland General Assembly, triennial assessment in the State became effective in fiscal years after 1980. This act provides that only 1/3 of all property be reassessed every year with all property being reassessed every three years. The assessment increase is phased in over the three-year period.

Taxes are levied as of July 1, become a lien on that date, and are due and payable by October 1, except principal residences, which are due and payable in semiannual installments at July 1 and December 31. Semiannual installments due on December 31 become delinquent January 1. Monthly interest at the rate of 2/3 of 1 percent and a penalty of 1 percent is added to all taxes unpaid. Sale of property for delinquent taxes or tax liens is conducted by Prince George's County during the month of May.

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The rate for the fiscal year ended June 30, 2016 was \$0.6248 per \$100 of assessed value for residential real property plus a bulk trash flat tax fee of \$165.48 per home; \$0.6253 per \$100 of assessed value for commercial real property and \$1.75 per \$100 of assessed value for business 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 by department.

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The State of Maryland Code allows municipalities to invest surplus funds in financial institutions within the State of Maryland if the financial institution provides collateral with a market value that equals or exceeds the amount by which a deposit exceeds the deposit insurance. Collateral is limited to obligations of or guarantees by the United States government; State, County or Municipal Obligation; obligations of the Inter-American Development Bank; or obligations of the World Bank. Municipalities may also invest in federal obligations or repurchase agreements those obligations secure. The State of Maryland Code requires municipalities have an investment policy. By resolution passed by the Town Council, an investment policy has been adopted.

Deposits: Deposits include cash in checking accounts and savings accounts. At fiscal year end, the carrying amount of the Town's deposits was \$2,284,220 and the bank balances were \$2,306,160. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2016, the Town's bank balances were not exposed to any custodial credit risk since all deposits were fully insured or collateralized. Of the bank balances, \$250,000 was covered by federal depository insurance, and \$2,056,160 was covered by collateral pledged to the Town by TD Bank in the form of an irrevocable standby letter of credit from the Federal Home Loan Bank of Pittsburgh as required by the Town's collateralization policy.

NOTE 3. DUE FROM OTHER GOVERNMENTS

The June 30, 2016 general fund balance due from other governments is as follows:

State of Maryland - Motor Vehicle and Highway User Revenue	\$ 4,486
State of Maryland - Emergency Management Agency	25,176
State of Maryland - Department of Housing & Community Development	3,780
Prince George's County - Local Impact Grant	23,000
Prince George's County - Waste Disposal Rebate	1,999
Maryland-National Capital Park and Planning Commission	27,500
Total	<u>\$ 85,941</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions Completions	Retirements Adjustments	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 76,741	\$ 203,489	\$ -	\$ 280,230
Construction in Progress	703,017	74,622	-	777,639
Total Capital Assets not being Depreciated	<u>779,758</u>	<u>278,111</u>	<u>-</u>	<u>1,057,869</u>
Capital assets being depreciated				
Improvements	120,047	37,062	-	157,109
Buildings	963,215	-	-	963,215
Infrastructure	4,044,701	-	-	4,044,701
Vehicles	304,715	36,365	-	341,080
Equipment	323,900	22,719	(10,600)	336,019
Total Capital Assets being Depreciated	<u>5,756,578</u>	<u>96,146</u>	<u>(10,600)</u>	<u>5,842,124</u>
Less accumulated depreciation for				
Improvements	(32,481)	(4,943)	-	(37,424)
Buildings	(220,523)	(20,001)	-	(240,524)
Infrastructure	(1,119,178)	(59,959)	-	(1,179,137)
Vehicles	(234,706)	(36,341)	-	(271,047)
Equipment	(143,112)	(33,639)	6,784	(169,967)
Total Accumulated Depreciation	<u>(1,750,000)</u>	<u>(154,883)</u>	<u>6,784</u>	<u>(1,898,099)</u>
Total Capital Assets being Depreciated, Net	<u>4,006,578</u>	<u>(58,737)</u>	<u>(3,816)</u>	<u>3,944,025</u>
Government Activities Capital Assets, Net	<u>\$ 4,786,336</u>	<u>\$ 219,374</u>	<u>\$ (3,816)</u>	<u>\$ 5,001,894</u>

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

<u>Government Activities</u>	<u>Depreciation</u>
General government and administration	\$ 2,876
Public safety	44,825
Public works	<u>107,182</u>
	<u>\$ 154,883</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 5. COMMITMENTS

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

Long Government Infrastructure Bond: On July 6, 2015, the Mayor and Council authorized an Ordinance providing for the issuance and sale of public debt (the "Bonds") to be issued under the State of Maryland's Local Government Infrastructure Financing Program, pursuant to the authority of Section 4-230 of the Housing and Community Development Article of the Annotated Code of Maryland as amended. The purpose of this debt is to finance a portion of the cost of the Roadway Improvement Projects, to fund reserves and to pay the costs of the issuance of the Bonds. The loan closed on August 27, 2015 with a principal amount of \$502,024 and an annual interest rate of 2.93% with a maximum repayment period of 15 years.

The proceeds of this Local Government Obligation has been retained and administered by the Community Development Administration and will be disbursed to the Town in accordance with the Bond agreement.

Local Government Infrastructure Bonds

Name of Issue	Issuance Date	Maturity Date	Effective		Redemptions		Bond
			Interest Rate	Bond Issuance	2016	To Date	Outstanding 30-Jun-16
Local Govt Infrastructure Bonds - 2015	8/27/2015	4/1/2030	2.94%	\$ 502,024	\$ 21,524	\$ 21,524	\$ 480,500

The requirements to amortize the Bond repayment with governmental commitment as of June 30, 2016, are shown below.

Annual Debt Service Requirements to Maturity

Year Ending 30-Jun	Principal	Interest	Trustee Fees	Total
2017	28,500	14,824	213	43,537
2018	28,500	14,593	213	43,306
2019	29,500	14,023	213	43,736
2020	30,500	13,138	213	43,851
2021	31,500	12,223	213	43,936
2022-2030	332,000	59,391	2,204	393,595
Total	<u>480,500</u>	<u>128,192</u>	<u>3,269</u>	<u>611,961</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 5. COMMITMENTS (CONTINUED)

Operating Lease: On January 20, 2015 the Town entered into a 36 month operating lease with Aitheras, LLC to provide a Cisco phone system with cloud based services. The future minimum lease payments are as follows:

Schedule of Future Operating Lease Payments

Year Ended 30-Jun	Phones	Cloud Services	Total
2017	\$ 16,573	\$ 6,584	\$ 23,157
2018	16,573	6,584	23,157
2019	8,286	3,292	11,578
TOTAL	\$ 41,432	\$ 16,460	\$ 57,892

Uncompensated Absences: At June 30, 2016, uncompensated absences totaled \$29,212 for governmental activities.

Uncompensated Absences

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
Compensated Absences	\$ 32,318	\$ 22,453	\$ (25,559)	\$ 29,212	\$ -
Totals	\$ 32,318	22,453	\$ (25,559)	\$ 29,212	\$ -

NOTE 6. RETIREMENT PLAN

The Town offers its full-time employees a deferred compensation plan administered by the ICMA Retirement Corporation created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time Town employees, permits them to defer a portion of their current salary up to the limits established by the Internal Revenue Service until future years. Town contributions are permissible but not required. During FY 2016 the Town contributed \$32,183 to the plan for full-time employees. Employee contributions are immediately 100% vested. Town contributions vest over time according to the plan terms. Non-vested Town contributions are forfeited upon termination of employment. The Town received \$5,791 in forfeitures during the year which were recognized as other income. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The Town has no liability for post-retirement benefits at June 30, 2016.

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 7. CONTINGENCIES

The Town is party to legal proceedings which normally occur in government operations. The legal proceedings are not, in the opinion of the Town Attorney, likely to have a material, adverse impact on the financial position of the Town as a whole.

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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information: 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 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 becoming 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 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund on the budgetary basis of accounting in order to provide a meaningful comparison of actual results with budget estimates.

NOTE 9. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The general liability risks are financed through the Town's participation in the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML) and the Maryland Association of Counties. The Local Government Insurance Trust is a self-insurance pool offering general liability,

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 9. RISK MANAGEMENT (CONTINUED)

excess liability, business auto liability, police legal liability, and public official liability.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessments. The Trust is owned by the participating towns, cities, and counties and managed by a Board of Trustees elected by the members. Annual premiums are assessed for the various policy coverages.

During fiscal year 2016, the Town paid premiums of \$32,530 to the Trust. Settled claims resulting from these risks have not exceeded coverage amounts, and no significant reductions in insurance coverage have occurred in the past three fiscal years. The Town carries commercial insurance for employee health and workers compensation for employee accidents.

NOTE 10. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS

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

- **GASB Statement No. 77, "Tax Abatement Disclosures"** will be effective for the Town beginning with its year ending June 30, 2017. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: A Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; The gross dollar amount of taxes abated during the period; and Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.
- **GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"** will be effective for the Town beginning with its year ending June 30, 2017. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 10. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS (CONTINUED)

- **GASB Statement No. 79, "Certain External Investment Pools and Pool Participants"** will be effective for the Town beginning with its year ending June 30, 2017. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.
- **GASB Statement No. 80, "Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14"** will be effective for the Town beginning with its year ending June 30, 2018. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.
- **GASB Statement No. 81, "Irrevocable Split-Interest Agreements"** will be effective for the Town beginning with its year ending June 30, 2018. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.
- **GASB Statement No. 82, "Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73"** will be effective for the Town beginning with its year ending June 30, 2018. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements

For the Year Ended June 30, 2016

NOTE 11. SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Town through November 30, 2016 (the date the financial statements were available to be issued).

- On October 4, 2016 the Town entered into a construction contract with Monumental Enterprises, LLC for the renovation of the Public Safety and Public Works building on Modoc Lane in the amount of \$420,000.
- The government adopted a new framework in its approved budget for FY 2017 incorporating the previously unassigned fund balance as part of its funding resources.

TOWN OF FOREST HEIGHTS, MARYLAND
General Fund Schedule of Revenues and Expenditures – Budget and Actual

For the Year Ended June 30, 2016

*REQUIRED SUPPLEMENTARY
INFORMATION*

For the Year Ended June 30, 2016

TOWN OF FOREST HEIGHTS, MARYLAND
General Fund Schedule of Revenues and Expenditures – Budget and Actual
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Taxes				
Town Real Estate Taxes	\$ 985,660	\$ 985,660	\$ 990,884	\$ 5,224
Solid Waste Service Charge	154,724	154,724	154,724	-
Utility Taxes	40,000	40,000	48,171	8,171
Personal Property Taxes	13,500	13,500	10,465	(3,035)
	<u>1,193,884</u>	<u>1,193,884</u>	<u>1,204,244</u>	<u>10,360</u>
Licenses and Permits				
Cable TV Franchise Fee	47,000	47,000	47,517	517
Rental Permits	2,400	2,400	2,550	150
Building Permits	1,200	1,200	2,925	1,725
Utility Permits	-	2,000	1,000	(1,000)
Occupancy Permits	1,200	1,200	175	(1,025)
	<u>51,800</u>	<u>53,800</u>	<u>54,167</u>	<u>367</u>
Intergovernmental				
Income Taxes	190,000	190,000	210,298	20,298
Highway User Revenue	19,150	19,150	71,638	52,488
Grants & Bond Bills	1,315,770	1,227,688	128,621	(1,099,067)
State Aid to Police	42,469	42,469	44,906	2,437
Parks & Planning	10,000	17,500	17,500	-
Rebates Waste Disposal	7,996	7,996	7,996	-
	<u>1,585,385</u>	<u>1,504,803</u>	<u>480,959</u>	<u>(1,023,844)</u>
Fines and Forfeitures				
Speed Camera	634,000	634,000	805,047	171,047
Speed Camera Collections	125,000	125,000	146,681	21,681
Civil Citations	5,000	5,000	6,479	1,479
Grass Cutting	500	500	-	(500)
Municipal & Parking Fines, & Accident Reports	10,000	10,000	8,915	(1,085)
	<u>774,500</u>	<u>774,500</u>	<u>967,122</u>	<u>192,622</u>
Charges for Services				
Municipal Building Rental	10,000	10,000	21,104	11,104
Metal Pick-up & Tire Disposal	300	300	271	(29)
	<u>10,300</u>	<u>10,300</u>	<u>21,375</u>	<u>11,075</u>
Miscellaneous Revenue				
Investment Interest Income	1,500	1,500	2,444	944
Solar Energy	2,000	2,000	4,761	2,761
Yard Sale	600	600	559	(41)
Newsletter Advertising	300	300	850	550
Miscellaneous	2,800	6,100	11,880	5,780
	<u>7,200</u>	<u>10,500</u>	<u>20,494</u>	<u>9,994</u>
TOTAL REVENUES	<u>\$ 3,623,069</u>	<u>\$ 3,547,787</u>	<u>\$ 2,748,361</u>	<u>\$ (799,426)</u>

TOWN OF FOREST HEIGHTS, MARYLAND
General Fund Schedule of Revenues and Expenditures – Budget and Actual
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Administration Expenses				
Salaries	\$ 330,800	\$ 312,000	\$ 296,570	15,430
Operating Expenses	277,569	333,069	278,652	54,417
Capital Outlay	1,500	2,000	2,575	(575)
	<u>609,869</u>	<u>647,069</u>	<u>577,797</u>	<u>69,272</u>
Public Safety				
Salaries	390,151	352,151	350,436	1,715
Operating Expenses	508,600	551,100	520,575	30,525
Capital Outlay	13,000	13,000	12,440	560
	<u>911,751</u>	<u>916,251</u>	<u>883,451</u>	<u>32,800</u>
Public Works				
Salaries	161,882	179,882	153,659	26,223
Operating Expenses	328,619	377,546	354,921	22,625
Capital Outlay	1,479,106	1,852,921	178,793	1,674,128
	<u>1,969,607</u>	<u>2,410,349</u>	<u>687,373</u>	<u>1,722,976</u>
Miscellaneous				
Debt Service	57,111	42,111	33,086	9,025
Workers Compensation	97,122	96,522	74,563	21,959
Health Insurance	55,080	54,080	48,982	5,098
Social Security Contribution	66,017	64,917	58,081	6,836
Unemployment Insurance	10,000	8,000	2,340	5,660
Retirement Plan Contribution	38,185	35,685	32,183	3,502
Life Insurance	10,434	10,434	8,700	1,734
	<u>333,949</u>	<u>311,749</u>	<u>257,935</u>	<u>53,814</u>
TOTAL EXPENDITURES	<u>3,825,176</u>	<u>4,285,418</u>	<u>2,406,556</u>	<u>1,878,862</u>
Excess (Deficit) of Revenues over expenditures	(201,607)	(737,631)	341,805	1,079,436
Other Financing Sources				
Sale of Fixed Assets	500	500	280	(220)
Bond Proceeds	-	500,000	-	(500,000)
NET CHANGE IN FUND BALANCE*	<u>(201,607)</u>	<u>(237,131)</u>	<u>342,085</u>	<u>579,216</u>
Fund Balance - <i>Beginning of Year</i>	1,703,047	1,703,047	1,703,047	-
Fund Balance - <i>End of Year</i>	<u>\$ 1,501,440</u>	<u>\$ 1,465,916</u>	<u>2,045,132</u>	<u>\$ 579,216</u>