Financial Statements With Independent Auditor's Report For the Year Ended June 30, 2010

Town of Forest Heights
Forest Heights, Maryland

FRANCIS J. DISALVO CERTIFIED PUBLIC ACCOUNTANT

6107 ELMENDORF DRIVE SUITLAND, MARYLAND 20746 • VOICE (301)568-1100
FACSIMILE (301)736-6290 • E-MAIL: FDISALVO@AOL.COM

Table of Contents

REPORTS	
Independent Auditor's Report	1 & 2
Management's Discussion and Analysis	3 to 10
FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet—Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	15
Reconciliation of the Government Fund, Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Notes to the Financial Statements	17 to 27
SUPPLEMENTARY INFORMATION	
Schedule of Revenues Budget and Actual—Non-GAAP Budgetary Basis General Fund	29
Schedule of Expenditures Budget and Actual—Non-GAAP Budgetary Basis General Fund	30
Notes to Required Supplementary Information	31

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, 2010, 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, 2010, and the respective changes in financial position, where applicable, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued a report dated October 24, 2011on 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 29 through 31is not a required part of the basic financial statements but is 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.

Suitland, Maryland
October 24, 2011

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, 2010. 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 fiscal year ended June 30, 2010 by $2,613,653 (Net Assets).

The total net assets of the Town increased by $674,795. As of the close of the fiscal year ended June 30, 2010, the Town's general fund reported a surplus of $653,140, an increase of $318,313 in comparison to the prior year. The Town's total long-term obligations increased by $67,889 to $91,203.

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 2010. 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.

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.

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	➢ Statement of net assets ➢ Statement of activities	➢ 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.

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 $2,613,653 at the close of the fiscal year ended June 30, 2010.

The Town's net assets 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, 2010 and 2009.

Condensed Statement of Net Assets

	Governmental Activities	
	2010	2009
Assets		
Current and other assets	$ 618,492	$ 400,530
Capital Assets - Net of Depreciation	2,150,716	1,627,345
Total assets	2,769,208	2,027,875
Liabilties		
Long-term liabilities outstanding	91,203	4,500
Other Liabilties	64,351	84,517
Total liabilities	155,554	89,017
Net Assets	2,613,654	1,938,858
Net Assets		
Invested in capital assets, *net of related debt*	$ 2,084,732	$ 1,627,345
Unrestricted Surplus (Deficit)	528,922	311,513
Total net assets	$ 2,613,654	$ 1,938,858

The Town's revenue totaled $1,949,237 (see Chart A). Grants comprised 22% of the Town's income due in large part to state and county grants to fund the renovation of the Town's municipal building. In Fiscal year 2010, 55% of the Town's revenue comes from real property taxes, and 66 cents of every dollar comes from some type of tax (see Chart A). The Town's expenses cover a range of services, with about 39% related to public safety and 37% to public works (see Chart B).

CHART A

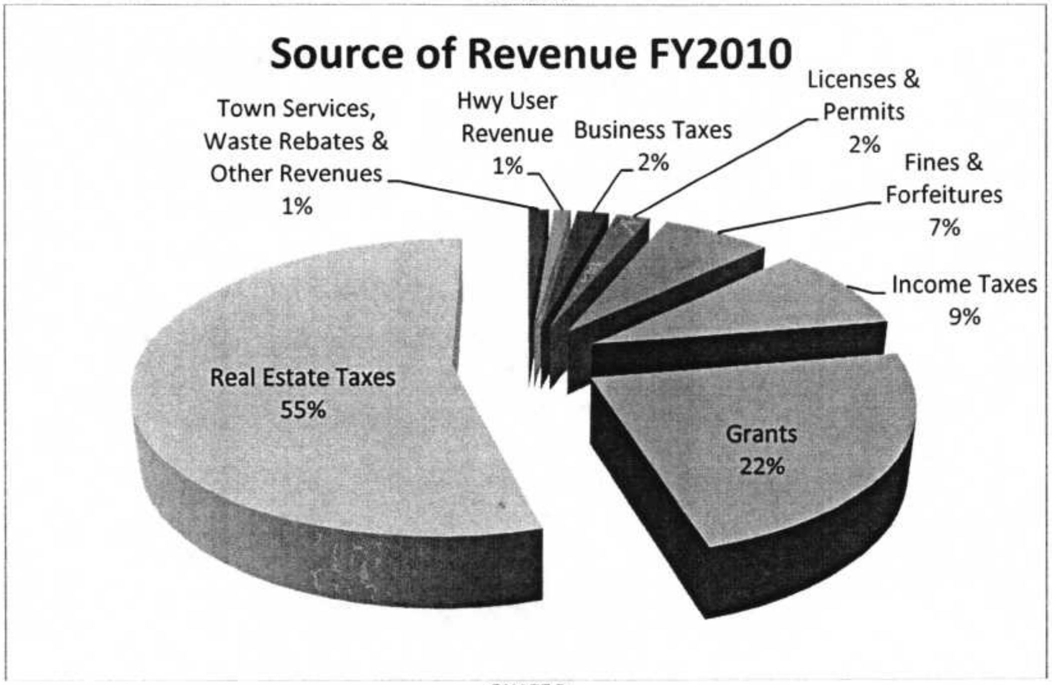
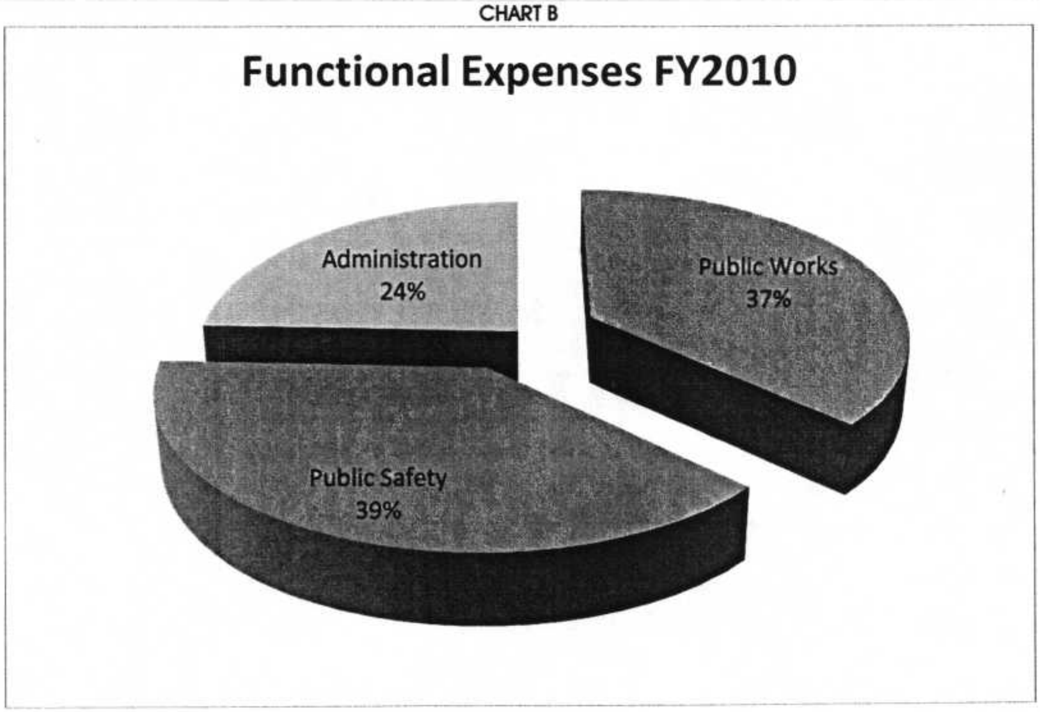


CHART B



The following table presents a condensed statement of activities and changes in net assets for the Town for the year ended June 30, 2010 and 2009.

Condensed Statement of Activities and Changes in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
Revenues		
Program Revenues		
Charges for Services	$ 10,467	$ 15,386
Operating grants and Contributions	72,636	22,273
Capital grants and Contributions	376,572	0
General Revenues		
Property Taxes	1,101,443	970,005
Intergovernmental	210,929	286,277
Other	177,190	116,487
Total Revenues	$ 1,949,237	$ 1,410,428
Expenses		
Administration	$ 308,557	$ 241,455
Public Safety	494,620	437,931
Public Works	471,265	485,443
Total Expenses	$ 1,274,442	$ 1,164,829
Increase (Decrease) in Net Assets	$ 674,795	$ 245,599
Net Assets *as of July 1, 2009 and 2008*	1,938,858	1,693,259
Total net assets	$ 2,613,653	$ 1,938,858

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 fund, the chief operating fund of the Town, reported an ending surplus fund balance of $334,827, an increase of $228,577 over the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The Town's investment in capital assets for its governmental activities as of June 30, 2010 was $2,051,716 (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, vehicles, and equipment. The following is a summary of the capital assets.

Capital Assets Net of Depreciation

	Governmental Activities	
	2010	2009
Land	$ 5,039	$ 5,039
Construction on Progress	235,564	-
Buildings	272,657	112,946
Vehicles	103,526	82,041
Equipment	44,018	7,396
Street & Infrastructure	1,390,912	1,419,923
Total	$ 2,051,716	$ 1,627,345

Long Term Debt: At year-end, the Town had $91,203 in outstanding debt. The long-term debt consists of a capital lease and installment loan for police and public works vehicles and accumulated unused compensated absences. Long-term debt increased by $67,889 from the prior year.

Long-term Liabilities

	Governmental Activities	
	2010	2009
Capital Lease Liability	$ 47,684	$ -
Installment Loan	18,300	-
TraffiPax Obligation	-	4,500.00
Accumulated unused vacation leave	25,219	18,814
Total	$ 91,203	$ 23,314

HIGHLIGHTS

The Town of Forest Heights made progress in fiscal year 2010. The highlights are as follows:

- A significant number of grants were secured that provided funding for:
  - New police radios.
  - Green roof, energy efficient windows, and other major renovations to the municipal building.
- A Computer Café program for town residents was developed.
- The Police Department was expanded to five officers.
- Three new police vehicles were acquired.
- Speed Camera program was initiated.
- The Town appointed a part-time code enforcement officer.
- A new public works truck was acquired.
- A Town Charter amendment was approved to hire a town administrator.

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 20745-1998.

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Net Assets
For the Year Ended June 30, 2010

Assets		
Cash & Cash Equivalents	$	325,351
Accounts Receivable		
Real Estate Taxes - net		7,134
Personal Property Taxes		13,706
Grants Receivable		300,519
Cable TV Franchise Fees		8,738
Highway User Revenue		10,934
Speed Camera Fines & Fees - *Due from Vendor*		41,071
Employee Loans		7,878
Prepaid Expenses		2,160
Capital Assets		
Nondepreciable assets - *Land & Construction in Progess*		240,603
Depreciable assets, net		1,811,113
Total assets	$	2,769,207
Liabilities		
Accounts payable	$	42,047
Revolving Credit Accounts		1,131
Accrued liabilties		21,173
Noncurrent liabilities		
Due within one year		24,115
Due in more than one year		67,088
Total liabilities	$	155,554
Net Assets		
Invested in capital assets, net of related debt	$	1,985,733
Unrestricted Surplus (Deficit)		627,920
Total net assets	$	2,613,653

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Activities
For the Year Ended June 30, 2010

		Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
Function/Programs	Expenses	Charge for Service	Operating and Capital Grant Contributions	Governmental Activities
Governmental Activities				
Administration	$ 308,557	$ 2,183	$ 370,838	$ 64,464
Public Safety	494,620	7,105	49,727	(437,788)
Public Works	471,265	1,179	28,643	(441,443)
Total Governmental Activities	$ 1,274,442	$ 10,467	$ 449,208	$ (814,767)
	General Revenues			
	Real Estate Tax			$ 1,063,559
	Income Tax			181,660
	Highway User Revenue			21,272
	Franchise Fees, Building & Rental Permits			40,486
	Tangible Personal Property & Utility Taxes			37,884
	Fines & Forfeitures			130,655
	Waste Disposal Rebates			7,996
	Miscellaneous			6,050
	Total General Revenue			$ 1,489,562
	Change in Net Assets			$ 674,795
	Net Assets - beginning			1,938,858
	Net Assets - ending			$ 2,613,653

TOWN OF FOREST HEIGHTS, MARYLAND
Balance Sheet
Governmental Funds
As of June 30, 2010

Assets		
Cash & Cash Equivalents	$	325,351
Accounts Receivable		
Real Estate Taxes - Net		7,134
Cable TV Franchise Fee		8,738
Business Personal Property Taxes		13,706
Highway User Revenue		10,934
Disposal Rebates		14,842
Grant Receivable		285,677
Speed Camera		41,071
Prepaid Expenses		2,160
Employee Loans		7,878
Total assets	$	717,491
Liabilities		
Accounts payable		
Accounts payable	$	42,047
Accrued liabilties		21,173
Short Term Credit		1,131
Total liabilities	$	64,351
Fund Equity		
Fund Balance		
Unreserved - undesignated	$	653,140
Total Liabilities and Fund Equity	$	717,491

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

TOWN OF FOREST HEIGHTS, MARYLAND

Reconciliation of the Governmental Fund Balance Sheet
To the Statement of Net Assets
For the Year Ended June 30, 2010

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS		$ 653,140
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	$ 3,241,614	
Accumulated Depreciation	(1,189,898)	
		2,051,716
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 liabilties in the funds		
Capital Lease Liability	$ (47,684)	
Vehicle Loan	(18,300)	
Accumulated Unused Compensated Absences	(25,219)	
		(91,203)
NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ 2,613,653

TOWN OF FOREST HEIGHTS, MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

REVENUES	
Real Estate Tax	$ 1,063,559
Income Tax	181,660
Highway User Revenue	21,272
Cable TV Franchise Fee	34,897
Operating and Capital Grants	449,208
Tangible Personal Property & Utility Taxes	37,884
Waste Disposal Rebates	7,996
Service Charges for Current Services	16,317
Fines and Forfeitures	130,655
Building Permits	1,464
Investment Income	1,557
Miscellaneous	2,768
Total Revenues	$ 1,949,237
EXPENDITURES	
Current	
Administration	$ 275,421
Public Safety	359,188
Public Works	403,339
Capital Outlays	526,559
Miscellaneous - *Payroll Taxes & Employee Benefits*	124,518
Debt Service - Principal	29,316
Debt Service - Interest	3,382
TOTAL EXPENDITURES	1,721,723
SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES	$ 227,514
OTHER FINANCING SOURCES (USES)	
Transfers In - *Capital Leases & Vehicle Loans*	90,799
Transfers Out	-
NET CHANGE IN FUND BALANCE	$ 318,313
FUND BALANCE - July 1, 2009	334,827
FUND BALANCE - June 30, 2010	$ 653,140

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

TOWN OF FOREST HEIGHTS, MARYLAND

Reconciliation of the Governmental Fund, Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2010

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 318,313
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	$ 526,559	
Depreciation	(73,877)	
		452,682
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 2010.		29,316
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:		(90,799)
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.		(34,717)
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		-
CHANGE IN NET ASSETS OF THE GOVERNMENTAL ACTIVITIES		$ 674,795

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. 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 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.

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 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.

- 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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. Encumbrances

The Town does not use encumbrances accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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 $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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.
  (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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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 based on the assessed value as determined by Maryland State Department of Assessment and Taxation. The rate for the fiscal year ended June 30, 2010 was $0.53 per $100 of assessed value for real property plus a bulk trash flat tax fee of $216 per home; and $1.25 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 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, 2010.

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, 2010 were 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 $325,351 and the bank balance was $335,302.

NOTE 4. DUE FROM OTHER GOVERNMENTS AND TAXES RECEIVABLE

The June 30, 2010 general fund balance due from other governments and taxes receivable is as follows:

	2010	2009
State Of Maryland		
Highway User Revenue	$ 10,934	$ 12,979
Grant Receivable	183,008	-
Mema Reimbursement	14,842	-
State Police Grant	-	721
Prince George's County		
Real Estate Taxes - net	7,134	-
Grant Receivable	100,000	-
Disposal Fee	-	1,999
Tangible Personal Property Taxes	13,706	10,114
Total	$ 329,624	$ 25,813

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions Completions	Retirements Adjustments	Balance June 30, 2010
Governmental activities				
Capital assets not being depreciated				
Land	$ 5,039	$ -	$ -	$ 5,039
Construction in Progress	-	235,564	-	235,564
Total Capital Assets not being Depreciated	5,039	235,564	-	240,603
Capital assets being depreciated				
Improvements	27,829	1,380		29,209
Buildings	243,790	163,320		407,110
Infrastructure	2,272,459	-		2,272,459
Vehicles	214,624	87,809	(69,766)	232,667
Equipment	23,081	38,485	(2,000)	59,566
Total Capital Assets being Depreciated	2,781,783	290,994	(71,766)	3,001,011
Less accumulated depreciation for				
Improvements	(27,829)	(6)		(27,835)
Buildings	(130,844)	(3,604)		(134,448)
Infrastructure	(852,536)	(30,388)		(882,924)
Vehicles	(132,583)	(37,329)	41,456	(128,456)
Equipment	(15,685)	(2,550)	2,000	(16,235)
Total Accumulated Depreciation	(1,159,477)	(73,877)	43,456	(1,189,898)
Total Capital Assets being Depreciated, Net	1,622,306	364,871	(115,222)	1,811,113
Government Activities Capital Assets, Net	$1,627,345	$ 600,435	$ (115,222)	$ 2,051,716

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

Government activities	
General government and administration	$ 3,175
Public safety	31,097
Public works	39,605
	$ 73,877

NOTE 6. COMMITMENTS

Operating Lease: In May 2007, the Town entered into a five-year operating lease with Konica-Minolta Leasing for a Konica-Minolta Copier. The future minimum lease payments are as follows:

Year Ended June 30,	Future Annual Amounts
2011	2,863
2012	2,386
Total	$ 5,249

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. The remaining balance at June 30, 2009 was $4,500 which was paid in full in August 2010.

Capital Lease Liability: Ford Motor Credit, monthly payments of $1,443.13, including interest at 7.3%, secured by an interest in police vehicles. Final payment due in July 2013. Balance at June 30, 2010: $47,684.

Installment Loan: Allay Bank (successor to GMAC), a non-interest bearing note with monthly payments of $359. Final payment due September 2014. Balance at June 30, 2010: $18,300.

Changes in long-term debt: The following is a summary of changes in long-term debt for the year ended June 30, 2010.

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
TraffiPax Settlement	$ 4,500	$ -	$ 4,500	$ -	$ -
Installment Loan	-	21,529	3,229	18,300	4,306
Capital Lease	-	60,280	12,596	47,684	14,309
Accrued Vacation	18,814	6,405	-	25,219	5,500
	$ 23,314	66,685	$ 20,325	$ 91,203	$ 24,115

NOTE 7. CONTINGENCIES

The Town is party to legal proceedings which normally occur in government operations. The individual legal proceedings appear to possess factual and legal defenses that should prevail if the court follows the law as the trial court and/or the Town's attorney understands it; and 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. PENSION PLANS

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. Each year, the Town makes a contribution of 6% of each employee's compensation that is subject to income tax. 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 $17,562 and $19,394 for the years ended June 30, 2010 and 2009. The Town has no liability for post retirement benefits at June 30, 2010 and 2009.

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 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 offering general liability, excess liability, business auto liability, police legal liability, and public official liability. The Town carries commercial insurance for employee health and workers compensation for employee accidents.

NOTE 9: RISK OF LOSS CONTINUED

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. Settled claims resulting from these risks have not exceeded coverage amounts, and no significant reductions in insurance coverage have occurred in the past fiscal year.

NOTE 10. SUBSEQUENT EVENTS

The Town evaluated subsequent events for potential required disclosure through October 24, 2011, which represents the date the financial statements were available to be issued.

NOTE 11. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2010, 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 Number 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* will be effective for the Town beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

GASB Statement Number 57, *"OPEB (other post-employment benefits) Measurements by Agent Employers and Agent Multiple-Employer Plans,"* will be effective for the Town beginning with its year ending June 30, 2011. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

GASB Statement Number 59, *"Financial Instruments Omnibus,"* will be effective for the Town for its year ending June 30, 2011. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2010

TOWN OF FOREST HEIGHTS, MARYLAND
Schedule of Expenditures
Budget and Actual – Non-GAAP Budgetary Basis
GENERAL FUND
For the Year Ended June 30, 2010

	Original Budget	Actual	Favorable (unfavorable)
Taxes			
Town Real Estate Taxes	$ 1,036,313	$ 1,063,559	$ 27,246
Utility Taxes	13,000	26,679	13,679
Personal Property Taxes	9,000	11,205	2,205
	1,058,313	1,101,443	43,130
Licenses and Permits			
Cable TV Franchise Fee	28,500	34,897	6,397
Rental Permits	500	4,125	3,625
Building Permits	250	1,464	1,214
	29,250	40,486	11,236
Intergovernmental			
Income Taxes	120,000	181,660	61,660
Highway User Revenue	102,756	21,272	(81,484)
Grants & Bond Bills	348,842	416,070	67,228
State Aid to Police	-	23,155	23,155
Parks & Planning	10,000	9,984	(16)
Rebates Waste Disposal	7,996	7,996	-
	589,594	660,137	70,543
Fines and Forfeitures			
Red Light Camera	12,500	16,375	3,875
Speed Camera	-	88,630	88,630
Municipal Infractions	1,000	5,475	4,475
Parking Fines, Vehicle Release & Accident Reports	7,500	20,175	12,675
	21,000	130,655	109,655
Charges for Services			
Municipal Building Rental	1,000	2,183	1,183
Grass Cutting	2,000	-	(2,000)
Metal Pick-up	1,500	1,095	(405)
Tire Disposals	100	84	(16)
Fingerprinting	3,500	7,105	3,605
	8,100	10,467	2,367
Miscellaneous Revenue			
Investment Interest Income	500	1,557	1,057
Loan Proceeds	-	90,799	90,799
Miscellaneous	-	4,492	4,492
	500	96,848	96,348
TOTAL REVENUES	$ 1,706,757	$ 2,040,036	$ 333,279

TOWN OF FOREST HEIGHTS, MARYLAND

Schedule of Expenditures
Budget and Actual – Non-GAAP Budgetary Basis
GENERAL FUND
For the Year Ended June 30, 2010

	Original Budget	Actual	Favorable (unfavorable)
Administration Expenses			
Salaries	$ 158,285	$ 112,875	$ 45,410
Operating Expenses	145,035	162,546	(17,511)
Capital Outlay	200,000	405,824	(205,824)
	503,320	681,245	(177,925)
Public Safety			
Salaries	323,918	240,807	83,111
Operating Expenses	80,576	118,382	(37,806)
Capital Outlay	5,000	95,777	(90,777)
	409,494	454,966	(45,472)
Public Works			
Salaries	106,448	101,054	5,394
Operating Expenses	374,519	302,305	72,214
Capital Outlay	122,756	24,936	97,820
	603,723	428,295	175,428
Miscellaneous			
Workmen's Compensation	18,590	22,802	(4,212)
Health Insurance	41,000	45,552	(4,552)
Social Security Contribution	43,186	38,568	4,618
Unemployment Insurance	7,320	35	7,285
Retirement Plan Contribution	35,000	17,562	17,438
Life Insurance	1,100	-	1,100
Debt Service - Principal	44,024	29,316	14,708
Debt Service - Interest	-	3,382	(3,382)
	190,220	157,217	33,003
TOTAL EXPENDITURES	1,706,757	1,721,723	(14,966)
SURPLUS (DEFICIT) OF REVENUES OVER EXPENDITURES	-	$ 318,313	$ 318,313

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 2010.

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 may include an appropriation of fund balance as a revenue source. There was no revised budget for fiscal year 2010.