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Financial Statements  
with Independent Auditor's Report  
For the year ended June 30, 2005



# Town of Forest Heights

Forest Heights, Maryland

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**FRANCIS J. DISALVO**  
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities and the major fund of the town of Forest Heights as of and for the year ended June 30, 2005, 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. The financial statements of the Town of Forest Heights as of June 30, 2004 were audited by other auditors whose report dated August 15, 2005, expressed an unqualified opinion on those statements before restatement. I also audited the adjustments described in Note 10 that were applied to restate the 2004 fiscal year statements. In my opinion such adjustments are appropriate and have been properly applied.

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, 2005, and the respective changes in financial position, where applicable, for the year then ended in conformity with the accounting principals generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued a report dated August 7, 2006 on my consideration of the Town of Forest Height's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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

A handwritten signature in black ink, appearing to read "David A. Williams CPA". The signature is written in a cursive, flowing style.

Suitland, Maryland  
August 7, 2006

**TOWN OF FOREST HEIGHTS, MARYLAND**  
Management Discussion and Analysis  
For the Year Ended June 30, 2005

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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, 2005. Please read it with the Town's financial statements, which immediately follow this section.

**Financial Highlights**

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$1,533,503 (Net Assets). Of this amount, \$263,598 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$141,009. As of the close of the current fiscal year, the Town's general fund reported fund balance of \$237,312, an increase of \$54,303 in comparison to the prior year. The Town's total long-term obligations increased by \$72,013.

**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 the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

**TOWN OF FOREST HEIGHTS, MARYLAND**  
Management Discussion and Analysis  
For the Year Ended June 30, 2005

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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.

**Governmental funds.** The Town's basic services are included in the governmental funds, 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 governmental funds statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent on the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the reconciliation statements that explain the relationship (or differences) between them.

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

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

**TOWN OF FOREST HEIGHTS, MARYLAND**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2005**

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**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"> <li>- Statement of net assets</li> <li>- Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>- Balance sheet</li> <li>- Statement of revenues, expenditures, and changes in fund balances</li> </ul>
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, 2005**

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**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined assets exceeded liabilities by \$1,533,503 at the close of the fiscal year ended June 30, 2005.

Of the Town's net assets, 83 percent reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table presents a summary of the Statement of Net Assets for the Town as of June 30, 2005.

**Condensed Statement of Net Assets**

	Governmental Activities 2005
<b>Assets</b>	
Current and other assets	\$ 348,106
Capital Assets	1,392,479
<b>Total assets</b>	<b>1,740,585</b>
<b>Liabilities</b>	
Long-term debt outstanding	106,137
Other Liabilities	100,945
<b>Total liabilities</b>	<b>207,082</b>
<b>Net Assets</b>	<b>\$ 1,533,503</b>
<b>Net Assets</b>	
Invested in capital assets, <i>net of related debt</i>	\$ 1,269,905
Unrestricted	263,598
<b>Total net assets</b>	<b>\$ 1,533,503</b>

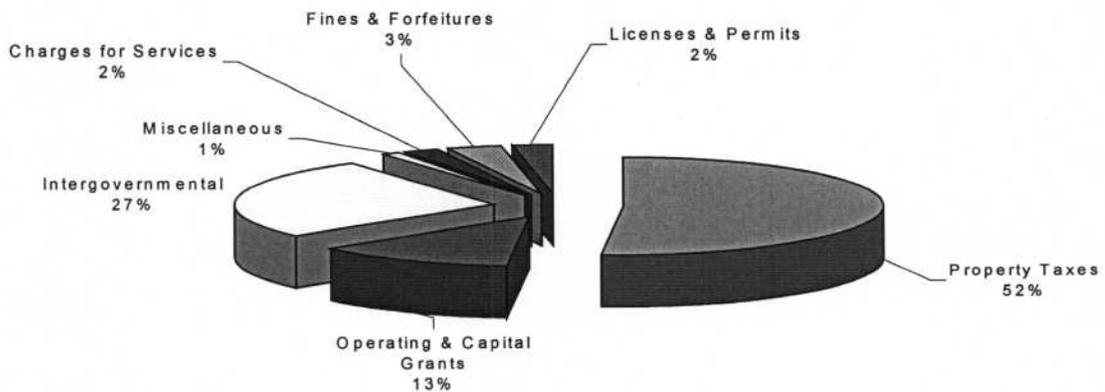
**TOWN OF FOREST HEIGHTS, MARYLAND**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2005**

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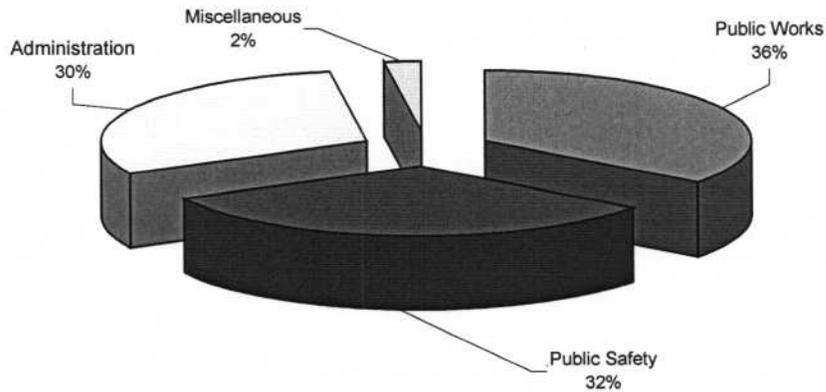
**Changes in Net Assets**

The Town's revenue totaled \$1,021,932 (see Chart A). Virtually half of the Town's revenue comes from property taxes, and 79 cents of every dollar comes from some type of tax (see Chart A). The Town's expenses cover a range of services, with about 32% related to public safety and 36% to public works (see Chart B).

**Chart A**  
**Sources of Revenue Fiscal Year 2005**



**Chart B**  
**Functional Expenses for Fiscal Year 2005**



**TOWN OF FOREST HEIGHTS, MARYLAND**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2005**

The following table presents a condensed statement of activities for the Town for the year ended June 30, 2005.

**Condensed Statement of Activities**

	<b>Governmental Activities 2005</b>
<b>Revenues</b>	
<hr/>	
Program Revenues	
Charges for Services	\$ 23,898
Operating grants and Contributions	27,942
Capital grants and Contributions	100,000
General Revenues	
Property Taxes	525,707
Intergovernmental	273,276
Other	71,109
<b>Total Revenues</b>	<b>\$ 1,021,932</b>
<hr/>	
<b>Expenses</b>	
<hr/>	
Administration	\$ 266,819
Public Safety	282,272
Public Works	311,436
Miscellaneous	20,396
<b>Total Expenses</b>	<b>\$ 880,923</b>
<hr/>	
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 141,009</b>
<i>Net Assets as of July 1, 2004 as restated</i>	<u>1,392,494</u>
<b>Total net assets</b>	<b>\$ 1,533,503</b>

**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, 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

**TOWN OF FOREST HEIGHTS, MARYLAND**  
**Management Discussion and Analysis**  
**For the Year Ended June 30, 2005**

current fiscal year, the governmental funds reported an ending fund balance totaling \$237,312, an increase of \$54,303 in comparison with the prior year as restated.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$237,312.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's investment in capital assets for its governmental activities as of June 30, 2005 was \$1,392,479 (net of accumulated depreciation). The investment in capital assets includes land, buildings, vehicles, and equipment. The following is a summary of the capital assets.

**Capital Assets Net of Depreciation**

	Governmental Activities	
	2005	Restated 2004
Land	\$ 5,039	\$ 5,039
Buildings	124,391	20,022
Vehicles	101,792	26,669
Equipment	21,377	18,644
Street & Infrastructure	1,139,880	1,164,933
<b>Total</b>	<b>\$ 1,392,479</b>	<b>\$ 1,235,307</b>

**LONG-TERM DEBT**

At year-end, the Town had \$106,137 in outstanding debt. The Town's long-term debt consists of a capital lease liability, TrafficPax settlement obligation and accumulated unused compensated absences. Long-term debt by increased by \$72,013 at year-end over the prior year.

**Long-term Liabilities**

	Governmental Activities	
	2005	Restated 2004
TrafficPax Obligation	\$ 22,000	\$ 25,000
Capital Lease Liability	72,574	0
Accumulated unused vacation leave	11,563	9,124
<b>Total</b>	<b>\$ 106,137</b>	<b>\$ 34,124</b>

**TOWN OF FOREST HEIGHTS, MARYLAND**  
Management Discussion and Analysis  
For the Year Ended June 30, 2005

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**TOWN CAPITAL INVESTMENTS FOR FISCAL YEAR 2005**

In fiscal year 2005 the Town made \$198,170 in capital investments. Those investments included:

- Upgrading of the accessibility of the municipal building's first floor entrance and facilities to accommodate persons with disabilities.
- A new public works multi-purpose truck.
- Two new police vehicles and equipment.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

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

**TOWN OF FOREST HEIGHTS, MARYLAND**

Statement of Net Assets

As of June 30, 2005

**Assets**

Cash & Cash Equivalents	\$	256,663
Accounts Receivable		
Property taxes		7,598
Due from other governments		77,308
Other receivables		6,537
Capital Assets		
Nondepreciable assets - Land		5,039
Depreciable assets, net		1,387,440
<b>Total assets</b>	<b>\$</b>	<b>1,740,585</b>

**Liabilities**

Accounts payable	\$	31,681
Accrued liabilities		19,264
Short Term Note Payable		50,000
Noncurrent liabilities		
Due within one year		33,040
Due in more than one year		73,097
<b>Total liabilities</b>	<b>\$</b>	<b>207,082</b>

**Net Assets**

Invested in capital assets, net of related debt	\$	1,269,905
Unrestricted		263,598
<b>Total net assets</b>	<b>\$</b>	<b>1,533,503</b>

**TOWN OF FOREST HEIGHTS, MARYLAND**

Statement of Activities

For the Year Ended June 30, 2005

<i>Function/Programs</i>	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets
		Charge for Service	Operating and Capital Grant Contributions	Governmental Activities
<b>Governmental Activities</b>				
Administration	\$ 266,819	\$ 14,294	\$ 100,000	\$ (152,525)
Public Safety	282,272	6,564	27,942	(247,766)
Public Works	311,436	2,885		(308,551)
Miscellaneous	20,396			(20,396)
<b>Total Governmental Activities</b>	<b>\$ 880,923</b>	<b>\$ 23,743</b>	<b>\$ 127,942</b>	<b>\$ (729,238)</b>
<b>General Revenues</b>				
				\$ 525,707
Taxes				273,276
Intergovernmental				71,264
Miscellaneous				<u>870,247</u>
<b>Total General Revenue</b>				<b>\$ 870,247</b>
				\$ 141,009
Change in Net Assets				1,392,494
Net Assets - beginning as restated				<u>1,392,494</u>
Net Assets - ending				<u>1,533,503</u>

TOWN OF FOREST HEIGHTS, MARYLAND

Balance Sheet  
Governmental Funds  
As of June 30, 2005

**Assets**

Cash & Cash Equivalents	\$	256,663
Accounts Receivable		
Property taxes		7,598
Due from other governments		77,308
Other receivables		<u>6,537</u>
<b>Total assets</b>	<b>\$</b>	<b>348,106</b>

**Liabilities**

Accounts payable	\$	31,681
Accrued liabilities		19,264
Short Term Note Payable		50,000
Deferred Revenue		<u>9,849</u>
<b>Total liabilities</b>	<b>\$</b>	<b>110,794</b>

**Fund Equity**

Fund Balance		
Unreserved - undesignated	\$	<u>237,312</u>
<b>Total Liabilities and Fund Equity</b>	<b>\$</b>	<b>348,106</b>

TOWN OF FOREST HEIGHTS, MARYLAND  
 Reconciliation of the Governmental Fund Balance Sheet  
 To the Statement of Net Assets  
 For the Year Ended June 30, 2005

<u>TOTAL FUND BALANCE - GOVERNMENTAL FUNDS</u>	\$	237,312
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AMOUNTS REPORTED IN GOVERNMENTAL ACTIVITIES  
 IN THE STATEMENT OF NET ASSETS ARE  
 DIFFERENT BECAUSE

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

Cost of capital assets	\$	2,349,455	
Accumulated Depreciation		<u>(956,976)</u>	
			1,392,479

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

9,849

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

Capital Lease Obligations	\$	(72,574)	
Settlement Obligation		(22,000)	
Accumulated Unused Compensated Absences		<u>(11,563)</u>	
			<u>(106,137)</u>

<u>NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	\$	<u>1,533,503</u>
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TOWN OF FOREST HEIGHTS, MARYLAND  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2005

**REVENUES**

Taxes	\$	524,235
Licenses and Permits		24,274
Intergovernmental		398,119
Service Charges for Current Services		23,743
Fines and Forfeitures		35,149
Miscellaneous		11,610
Proceeds of Long Term Capital Debt		85,427

<b>Total Revenues</b>	<b>\$</b>	<b>1,102,557</b>
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**EXPENDITURES**

**Current**

Administration	\$	262,394
Public Safety		271,855
Public Works		281,010
Miscellaneous		19,628
Capital Outlays		195,071

Debt Service - Principal		15,854
Debt Service - Interest		2,442

<b>TOTAL EXPENDITURES</b>		<b>1,048,254</b>
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SURPLUS OF REVENUES OVER EXPENDITURES	\$	54,303
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FUND BALANCES - July 1, 2004 - AS PREVIOUSLY STATED		181,661
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PRIOR PERIOD ADJUSTMENT		1,348
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FUND BALANCES - July 1, 2004 - RESTATED		183,009
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FUND BALANCES - June 30, 2005	\$	237,312
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**TOWN OF FOREST HEIGHTS, MARYLAND**

Notes to the Financial Statements

For the Year Ended June 30, 2005

<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 54,303</b>
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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	\$ 195,071	
Depreciation	<u>(40,998)</u>	
		154,073

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 2005

15,854

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:

(85,427)

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. This is the amount by which accumulated unused compensated balances increased.

(2,439)

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

4,645

<b>CHANGE IN NET ASSETS OF THE GOVERNMENTAL ACTIVITIES</b>	<b>\$ 141,009</b>
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# TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### A. Reporting entity

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

### B. Government-wide and Fund Financial Statements

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

**Statement of Net Assets:** This statement is designed to display the financial position of the Town as of year-end. Governmental activities are reported on a consolidated basis and are reported on a full accrual, economic resources basis, which recognizes all long-term assets, including infrastructure, as well as long-term debt and obligations. The Town's net assets are reported in three categories – 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Presently, the Town has no restricted assets.

**Statement of Activities:** This statement demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include

# TOWN OF FOREST HEIGHTS, MARYLAND

## Notes to the Financial Statements

For the Year Ended June 30, 2005

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

#### C. Fund Accounting

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

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

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

# TOWN OF FOREST HEIGHTS, MARYLAND

## Notes to the Financial Statements

For the Year Ended June 30, 2005

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Measurement Focus and Basis of Accounting

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

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

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

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

#### E. Use of Estimates

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

# TOWN OF FOREST HEIGHTS, MARYLAND

## Notes to the Financial Statements

For the Year Ended June 30, 2005

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### F. Encumbrances

The Town does not use encumbrances accounting.

#### G. Assets, liabilities, and net assets or equity

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

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

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

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

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

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

# TOWN OF FOREST HEIGHTS, MARYLAND

## Notes to the Financial Statements For the Year Ended June 30, 2005

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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**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:

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

# TOWN OF FOREST HEIGHTS, MARYLAND

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

### H. Revenues, Expenditures, and Expenses

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

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end.

Real and personal property taxes are levied at rates enacted by the Mayor and Town Council in the annual budget on the assessed value as determined by Maryland State Department of Assessment and Taxation. The rate for the fiscal year ended June 30, 2005 was \$0.47 per \$100 of assessed value for real property and \$0.58 per \$100 of assessed value for corporate and personal property.

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

## NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Information

Formal 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.

# TOWN OF FOREST HEIGHTS, MARYLAND

## Notes to the Financial Statements For the Year Ended June 30, 2005

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, 2005.

### 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, 2005 are all held in bank accounts insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the bank. At year-end, the carrying amount of the Town's deposits was \$256,663 and the bank balance was \$277,611.

### NOTE 4. DUE FROM OTHER GOVERNMENTS AND TAXES RECEIVABLE

The June 30, 2005 general fund balance due from other governments and tax receivable is as follows:

State Of Maryland	
Highway User Tax	\$ 14,835
State Police Grant FY04	5,673
Prince George's County	
Grant Receivable	54,801
Real property tax	3,864
Corporate and utilities tax	3,734
Disposal Fee	1,999
Total	<u>\$ 84,906</u>

**TOWN OF FOREST HEIGHTS, MARYLAND**

Notes to the Financial Statements

For the Year Ended June 30, 2005

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Restated Balance July 1, 2004	Additions Completions	Retirements Adjustments	Balance June 30, 2005
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,039		\$	\$ 5,039
Capital assets being depreciated				
Improvements	27,829			27,829
Buildings	137,631	\$ 105,388		243,019
Infrastructure	1,878,925			1,878,925
Vehicles	78,697	85,727		164,424
Equipment	23,164	7,055		30,219
Total Capital Assets being Depreciated	2,146,246	198,170		2,344,416
Less accumulated depreciation for				
Improvements	27,829			27,829
Buildings	117,609	1,019		118,628
Infrastructure	713,992	25,053		739,045
Vehicles	52,028	10,604		62,632
Equipment	4,520	4,322		8,842
Total Accumulated Depreciation	915,978	40,998		956,976
Total Capital Assets being Depreciated, Net	1,230,268	(40,998)		1,387,440
Government Activities Capital Assets, Net	<u>\$1,235,307</u>	<u>\$ (40,998)</u>	<u>\$</u>	<u>\$ 1,392,479</u>

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

Government activities	
General government and administration	\$ 2,355
Public safety	9,637
Public works	29,006
	<u>\$ 40,998</u>

**TOWN OF FOREST HEIGHTS, MARYLAND**

Notes to the Financial Statements  
For the Year Ended June 30, 2005

**NOTE 6. SHORT TERM DEBT, LONG-TERM DEBT and CAPITAL LEASE LIABILITY**

In September 2004, the Town obtained a short-term loan in the amount of \$50,000 maturing August 1, 2005 with the interest rate adjusted monthly from 3.072% to 4.022% annual percentage rate from the Bank of America to fund contractor progress billings before receiving reimbursement under the Town's "Accessibility Grant." The balance at June 30, 2005 was \$50,000.

Changes in long-term debt. The following is a summary of changes in long-term debt for the year ended June 30, 2005.

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due Within One Year
TraffiPax Settlement	\$ 25,000	\$ 0	\$ 3,000	\$ 22,000	\$ 4,500
Lease payable	0	85,427	12,853	72,574	25,649
Accrued Vacation	9,124	4,720	2,281	11,563	2,891
	<u>\$ 34,124</u>	<u>90,147</u>	<u>\$ 18,134</u>	<u>\$ 106,137</u>	<u>\$ 33,040</u>

**Capital Lease Liabilities:**

- In October 2004, the Town entered into a three-year capital lease for the purchase of two Ford Crown Victoria police sedans. The annual payments include interest at a rate of 4.65%. The balance at June 30, 2005 was \$30,273.
- In January 2005, the Town entered into a four-year capital lease for the purchase of a multi-purpose truck for Public Works. The annual payments include interest at a rate of 5%. The balance at June 30, 2005 was \$42,301.

**TraffiPax Settlement Obligation:**

In November 2003, the Town entered into an agreement with TraffiPax, Inc. to settle its claim against the Town arising from the red light camera program (*TraffiPax, Inc. v. Town of Forest Heights in the Circuit Court for Prince George's County, Case No. CAL02-17506*). The settlement provided that the Town pay TraffiPax \$25,000 over one year starting July 1, 2004. However, by subsequent agreement, the Town has paid \$375 per month without interest starting in December 2004. The balance at June 30, 2005 was \$22,000.

**NOTE 7. CONTINGENCIES**

The Town receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance

# TOWN OF FOREST HEIGHTS, MARYLAND

## Notes to the Financial Statements

For the Year Ended June 30, 2005

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### NOTE 7. CONTINGENCIES (CONTINUED)

with terms and conditions specified in the grant agreements, and are subject to audit by grantor agencies. Any disallowed expenditure resulting from such audits could become a liability of the General Fund or other applicable funds. In the opinion of Town management, no material refunds will be required as a result of expenditures disallowed, if any, by the grantor agencies.

### NOTE 8. PENSION PLANS

Single Employer Profit Sharing Plan. Effective July 1, 1997, the Town adopted a Money Purchase Pension Plan administered by the Mayor and Council collectively known as the Trustees. All elected officials and all other employees who work at least 501 hours or complete minimum of 6 months of service and/or attain the age of 20-1/2 are eligible to participate in the plan. The vesting period of this plan is six years with 100% vested and non-forfeitable interest in the Employer Account. The normal retirement age is 65. In the event of resignations prior to normal age, participants will be vested and have a forfeiture interest in a percentage of the Employer account provided that the years of service for vesting have been met. The Town contributions to the plan net of forfeitures amounted to \$4,672 for the year ended June 30, 2005. The Town has no liability for post retirement benefits at June 30, 2005.

### 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. The Town pays an annual premium of approximately \$25,206 to MLGIT for this general insurance coverage. The agreement with the MLGIT provides that the Town will be self-sustaining through member premiums and will re-insure through commercial companies for claims in excess of \$1,000,000. The Town continues to carry commercial claims resulting from these risks. However, it has not exceeded the commercial insurance coverage. Nor have significant reductions to insurance coverage occurred, in any of the past two fiscal years.

**TOWN OF FOREST HEIGHTS, MARYLAND**

Notes to the Financial Statements

For the Year Ended June 30, 2005

**NOTE 10. RESTATEMENT OF NET ASSETS**

Net assets of the governmental activities and general fund have been restated as of the beginning of the year resulting in a net increase of net assets in the amount of \$1,348 at June 30, 2004.

	Adjustments	Governmental Activities	General Fund
Previously Stated Net Assets as of June 30, 2004		\$ 1,391,146	\$ 181,661
Prior Period Adjustments			
Prepaid Building Improvement Costs	\$ 16,131		
Omitted Assets net of Depreciation	18,644		
Account Receivable - Comcast FY04	6,227		
Accounts Payable - Pension Liability FY04	(5,679)		
Payroll Tax Liability - December 2002	(8,975)		
TraffiPax Settlement - November 2003	(25,000)		
Total of Adjustments		1,348	1,348
Restated Net Assets as of June 30, 2004		\$ 1,392,494	\$ 183,009

**REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2005

**TOWN OF FOREST HEIGHTS, MARYLAND**  
**Schedule of Revenues**  
**Budget and Actual – Non-GAAP Budgetary Basis**  
**GENERAL FUND**  
**For the Year Ended June 30, 2005**

	Original Budget	Actual	Favorable (unfavorable)
<b>Taxes</b>			
Town Real Estate Taxes	\$ 499,752	\$ 506,215	\$ 6,463
Utility Taxes	10,500	13,165	2,665
Tangible Personal Property Taxes	9,875	1,957	(7,918)
Interest - Town Real Estate Taxes	600	2,898	2,298
	<u>520,727</u>	<u>524,235</u>	<u>3,508</u>
<b>Licenses and Permits</b>			
Cable TV Franchise Fee	22,900	24,119	1,219
Building Permits		155	155
Business Licenses	30	0	(30)
	<u>22,930</u>	<u>24,274</u>	<u>1,344</u>
<b>Intergovernmental</b>			
Income Taxes	146,000	156,765	10,765
Highway User Revenue	90,720	108,515	17,795
Bond Issuance	500,000	0	(500,000)
CDBG HUD Grant - Municipal Building	85,456	96,901	11,445
Grants: Capital, Historic, & Liveable Community	168,108	0	(168,108)
State Aid to Police	26,925	24,942	(1,983)
Police Aid - County	1,125	3,000	1,875
Rebates Waste Disposal	9,000	7,996	(1,004)
	<u>881,334</u>	<u>398,119</u>	<u>(629,215)</u>
<b>Fines and Forfeitures</b>			
Red Light Camera	37,000	23,907	(13,093)
Parking Fines & Vehicle Release	4,000	11,242	7,242
	<u>41,000</u>	<u>35,149</u>	<u>(5,851)</u>
<b>Charges for Services</b>			
Municipal Building Rental	10,000	11,300	1,300
Equipment Rental	0	2,994	2,994
Disposal of Metal Items	1,075	2,669	1,594
Disposal of Tires	36	81	45
Grass Cutting		135	135
Accident Reports	1,000	847	(153)
Fingerprinting	0	5,717	5,717
	<u>12,111</u>	<u>23,743</u>	<u>11,632</u>
<b>Miscellaneous Revenue</b>			
Investment Interest Income	1,450	1,766	316
Miscellaneous	0	9,844	9,844
Proceeds from Long Term Debt	0	85,427	85,427
	<u>1,450</u>	<u>97,037</u>	<u>95,587</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,467,441</u>	<u>\$ 1,102,557</u>	<u>\$ (522,995)</u>

TOWN OF FOREST HEIGHTS, MARYLAND  
 Schedule of Expenditures  
 Budget and Actual – Non-GAAP Budgetary Basis  
 GENERAL FUND  
 For the Year Ended June 30, 2005

	Original Budget	Actual	Favorable (unfavorable)
Administration Expenses			
Salaries	\$ 132,860	\$ 121,994	\$ 10,866
Operating Expenses	188,766	92,584	96,182
Capital Outlay	212,455	102,289	110,166
	<u>534,081</u>	<u>316,867</u>	<u>217,214</u>
Public Safety			
Salaries	172,995	157,452	15,543
Operating Expenses	78,193	96,056	(17,863)
Capital Outlay	0	45,841	(45,841)
	<u>251,188</u>	<u>299,349</u>	<u>(48,161)</u>
Public Works			
Salaries	77,332	62,706	14,626
Operating Expenses	223,963	259,673	(35,710)
Capital Outlay	500,000	46,941	453,059
	<u>801,295</u>	<u>369,320</u>	<u>431,975</u>
Miscellaneous			
Workmen's Compensation	17,988	12,163	5,825
Social Security Contribution	20,000	25,904	(5,904)
Unemployment Insurance	1,000	6,355	(5,355)
Debt Service - Principal	0	15,854	(15,854)
Debt Service - Interest	0	2,442	(2,442)
	<u>38,988</u>	<u>62,718</u>	<u>(23,730)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,625,552</u>	<u>1,048,254</u>	<u>577,298</u>
<b>SURPLUS OF REVENUES OVER EXPENDITURES</b>	<u>\$ 0</u>	<u>\$ 54,303</u>	<u>\$ 54,303</u>

**TOWN OF FOREST HEIGHTS, MARYLAND**  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2005

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**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 2005. Therefore, changes in revenues, proceeds from financing, capital outlays and expenses clearly occurred during the year that were not anticipated when the budget was initially approved.

**RECONCILIATION OF BUDGETARY BASIS AND GAAP**

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

However, there was no revised budget for fiscal year 2005. The changes in revenues, proceeds from financing, capital outlays and expenses that occurred were not formally supported by a revised budget.