

**TOWN OF BROOKEVILLE,
MARYLAND**

**Financial Statements and
Report of Independent Certified Public
Accountants**

**For the Years Ended
June 30, 2006 and 2005**

TOWN OF BROOKEVILLE, MARYLAND
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June 30, 2006 and 2005

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Linton Shafer Warfield & Garrett, P.A.
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Commissioners of the Town of Brookeville
Brookeville, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Brookeville, Maryland (the Town), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Brookeville's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Brookeville, Maryland, as of June 30, 2006 and 2005, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 22, 2006

Linton Shafer Warfield & Garrett

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Town of Brookeville's Annual Financial Report represents the Town Commissioners' discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2006. It should be read in conjunction with the Town's financial statement that follows this section.

FINANCIAL AND BUDGETARY HIGHLIGHTS

- The tax rate for assessable real property for fiscal year 2006 was \$0.15 and the personal property tax rate was \$0.45. Our Net Assessable Tax Base was \$16,525,941. This tax rate represented no change enacted by the Town Commissioners from the previous year of \$0.15.
- The assets of the Town of Brookeville exceeded its liabilities at the close of the fiscal year by \$728,638 (net assets). Of this amount, \$162,721 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The carrying amount of the Town's cash deposits was \$144,511 and the bank balances totaled \$146,664, all of which are insured by Federal Deposit Insurance as required by State law. Governmental fund revenues were \$169,663, and expenditures were \$120,185 for an increase in fund balance of \$49,478.
- Of revenues received, real property tax amounted to \$24,231. State shared taxes derived from income taxes amounted to \$117,007. Intergovernmental revenues through County revenue sharing and State Highway User taxes amounted to \$15,203. Revenue from miscellaneous sources included rental income of the Brookeville Academy of \$6,550 and \$2,529 received from interest, donations, and other sources.
- Capital assets with total cost of \$881,231 have been depreciated by \$190,603 for a net reported value of \$690,628.
- Long-term debt, represented by a refinanced construction loan for the restoration of and addition to the Brookeville Academy Community Center, amounted to \$124,711 at the end of the fiscal year (June 30, 2006), of which \$8,827 is included as a current liability. The note maturity date of the loan is March 5, 2014.
- On the expenditure side for General Government, a category that includes Financial Administration such as personnel, insurance, Planning Commission, legal, and Town Building such as utilities and maintenance and operation of the Town's community center and office, actual expenses totaled \$54,311. Debt service including principal and interest on the Brookeville Academy loan amounted to \$25,321. Under the category of Public Works, including trash collection, recycling, street lighting, public area maintenance, and capital costs such as sidewalks and the restoration of the Brookeville Schoolhouse, expenditures totaled \$40,244.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. (Exhibits A-1 and A-2) The government-wide financial statements are designed to provide readers with a broad overview of the Town of Brookeville's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town of Brookeville'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 of Brookeville is improving or deteriorating.

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 the 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 (e.g., uncollected taxes).

Both of the government-wide financial statements of the Town of Brookeville are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town of Brookeville include general government and public works. The government-wide financial statements report only on the Town of Brookeville.

Fund financial statements. (Exhibits A-3 to A-5) A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Brookeville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Brookeville are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Brookeville maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of which is considered to be a major fund.

The Town of Brookeville adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund (as Required Supplemental Information) to demonstrate compliance with this budget.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as one useful indicator of a government's financial position. In the case of the Town of Brookeville, assets exceeded liabilities by \$728,638 at the close of the most recent fiscal year.

Approximately 95% of the Town of Brookeville's net assets reflect its investment in capital assets (e.g., land, buildings and equipment). The Town of Brookeville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Town of Brookeville - Net Assets

	<u>Governmental</u>
Current and other assets	\$ 170,840
Capital assets	<u>690,628</u>
Total assets	<u>861,468</u>
Other liabilities	16,946
Long-term liabilities	<u>115,884</u>
Total liabilities	<u>132,830</u>
Invested in capital assets, net of related debt	565,917
Unrestricted	<u>162,721</u>
Total net assets	<u>\$ 728,638</u>

The unrestricted net assets \$162,721 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities resulted in a net increase of the Town of Brookeville's net assets by \$52,935.

Town of Brookeville - Changes in Net Assets

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 8,673
Operating grants and contributions	800
General revenues:	
Taxes	142,656
Other	<u>17,732</u>
Total Revenues	<u>169,861</u>
 Expenses:	
General government	38,767
Building and zoning	31,453
Public works	35,466
Parks and recreation	309
Interest on long-term debt	<u>10,931</u>
Total Expenses	<u>116,926</u>
 Increase in net assets	52,935
Net assets, July 1, 2005	<u>675,703</u>
Net assets, June 30, 2006	<u>\$ 728,638</u>

- Taxes of \$142,458 comprised 84% of the total revenues of \$169,861. This balance is comprised of property and income taxes.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

(Exhibits A-3 and A-4)

The Town of Brookeville uses fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental funds. The focus of the Town of Brookeville governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Brookeville 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. As of the end of the current fiscal year, the Town of Brookeville governmental funds reported a combined ending fund balance of \$162,448, an increase of \$49,478 in comparison with the prior year.

General fund budgetary highlights. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as County and State grants; and (3) increases in appropriations that become necessary to maintain services. During the fiscal year the Town made no such amendments.

Actual revenues exceeded expenditures by \$49,478 in the General Fund for fiscal year 2006.

General Fund	Original/Final	
	<u>Budget</u>	<u>Actual</u>
Revenues		
Taxes	\$ 74,245	\$ 142,458
Intergovernmental	12,120	15,203
Other	<u>8,500</u>	<u>12,002</u>
Total Revenues	<u>94,865</u>	<u>169,663</u>
Total Expenditures	<u>122,158</u>	<u>120,185</u>
Change in Fund Balance	\$ <u>(27,293)</u>	\$ <u>49,478</u>

Town revenues increased in 2006 from 2005 by approximately \$49,803. Most of the increase is attributable to a substantial increase in State income tax revenue. The Town anticipates future increases in real estate taxes as several new residential projects are developed in the coming years, and believes it will be able to hold the tax rate as it is in the near term. The revenue picture with respect to State Highway User funds and County tax duplication revenue sharing is less clear but appears as though it will remain stable at current levels. Rental revenues from the Brookeville Academy Community Center increased as compared to the previous year and a modest increase is projected for the coming year despite increased competition.

Expenditures decreased in year 2006 from 2005 by \$177,686 primarily as a result of additional funds used in 2005 to pay down the principal on the original Brookeville Academy loan of \$136,125, and \$38,714 more Schoolhouse restoration costs in 2005 compared with year 2006. The restoration of the Schoolhouse will be completed in fiscal year 2007 with modest expenditures primarily for wooden steps and railings. Sidewalk construction budgeted in fiscal year 2006 was not expended but we anticipate those funds will be expended in the new fiscal year as State funds become available to compliment the Town's project. The Town will be adding additional maintenance and capital allocations in future budgets as it incorporates the new Water and North Street developments and deals with infrastructure needs such as street repair, new curbs on Market Street (east) and in front of the Academy, building painting cycles, and newly dedicated park land to the Town land from residential development.

There will continue to be strong efforts by the Town to aggressively seek grants and other forms of leveraged assistance and aid to reduce Town outlays to the extent possible.

CAPITAL ASSETS

At the end of fiscal year 2006, the Town's governmental activities have invested \$690,628 in land, construction in progress, infrastructure, building and improvements and equipment, as reflected in the following schedule. Total depreciation for the 2006 fiscal year was \$16,783

Governmental Activities - Capital Assets

	<u>Governmental Activities</u>
Non-Depreciable Assets	
Land	\$ 77,589
Construction in progress	<u>119,080</u>
Total Non depreciable capital assets	196,669
Other Capital Assets	
Infrastructure	34,925
Building and improvements	628,199
Equipment	<u>21,438</u>
Total Capital Assets being depreciated	<u>634,562</u>
Total Capital Assets	881,231
Accumulated Depreciation on	
Other Capital Assets	<u>(190,603)</u>
Net Capital Assets	<u>\$ 690,628</u>

ECONOMIC FACTORS

The major economic factor that will affect the Town of Brookeville is the size of the State income tax share that the Town will receive in the 2007 fiscal year. It could begin to increase significantly above projected estimates.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Brookeville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Brookeville, P.O. Box 67, Brookeville, Maryland, 20833.

THE TOWN OF BROOKEVILLE, MARYLAND
Statements of Net Assets
June 30,

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Assets		
Cash and cash equivalents	\$ 144,511	\$ 103,411
Receivables, net	3,588	975
Due from other governments	20,021	13,642
Prepaid expenses	2,720	792
Capital assets, net	<u>690,628</u>	<u>701,760</u>
Total Assets	<u>\$ 861,468</u>	<u>\$ 820,580</u>
Liabilities		
Accounts payable	\$ 6,329	\$ 4,777
Deposits	600	200
Payroll taxes withheld and accrued	108	623
Accrued salaries	1,082	175
Long-term liabilities		
Due within one year	8,827	7,769
Due in more than one year	<u>115,884</u>	<u>131,333</u>
Total Liabilities	132,830	144,877
Net Assets		
Invested in capital assets, net of related debt	565,917	562,658
Unrestricted	<u>162,721</u>	<u>113,045</u>
Total Net Assets	<u>728,638</u>	<u>675,703</u>
Total Liabilities and Net Assets	<u>\$ 861,468</u>	<u>\$ 820,580</u>

The accompanying notes are an integral part of these statements.

TOWN OF BROOKEVILLE, MARYLAND

Statement of Program Activities

For the Year Ended June 30, 2006 (with comparative totals for 2005)

	Net (Expenses) Revenue and Changes in Net Assets			
	Program Revenue		Operating	
Functions/Programs	Charges for	Grants and	Governmental	2006
	Services	Contributions	Activities	Total
	Expenses	Contributions	Activities	2005
				Total
Governmental Activities				
General government	\$ 38,767	\$ -	\$ (38,767)	\$ (32,886)
Building and zoning	31,453	-	(22,780)	(29,311)
Public works	35,466	800	(34,666)	(36,051)
Parks and recreation	309	-	(309)	(906)
Interest on Long-term debt	10,931	-	(10,931)	(9,147)
Total Governmental Activities	\$ 116,926	\$ 800	(107,453)	(108,301)
General Revenues				
Property taxes			25,649	23,496
Income taxes			117,007	72,485
Intergovernmental			15,203	10,740
Interest			2,059	982
Miscellaneous			470	271
Total General Revenues			160,388	107,974
Changes in Net Assets			52,935	(327)
Net Assets - Beginning of Year			675,703	676,030
Net Assets - End of Year			\$ 728,638	\$ 675,703

The accompanying notes are an integral part of this statement.

TOWN OF BROOKEVILLE, MARYLAND

Balance Sheets

Governmental Funds

June 30,

	General Fund <u>2006</u>	General Fund <u>2005</u>
Assets		
Cash and cash equivalents	\$ 144,511	\$ 103,411
Receivables, net	3,588	975
Due from other governments	20,021	13,642
Prepaid expenses	<u>2,720</u>	<u>792</u>
Total Assets	<u>\$ 170,840</u>	<u>\$ 118,820</u>
Liabilities		
Accounts payable	\$ 6,329	\$ 4,777
Deposits	600	200
Payroll taxes withheld and accrued	108	623
Accrued salaries	1,082	175
Deferred property taxes	<u>273</u>	<u>75</u>
Total Liabilities	<u>8,392</u>	<u>5,850</u>
Fund Balances		
Unreserved, undesignated	159,728	112,178
Reserved for prepaid expenses	<u>2,720</u>	<u>792</u>
Total Fund Balance	<u>162,448</u>	<u>112,970</u>
Total Liabilities and Fund Balances	<u>\$ 170,840</u>	<u>\$ 118,820</u>
Reconciliation of Total Governmental Fund Balances To Net		
Assets of the Governmental Activities		
Total Governmental Fund Balances	\$ 162,448	\$ 112,970
Amounts reported for governmental activities in the statement of net assets are different because:		
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	273	75
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	690,628	701,760
Long-term liabilities are not reported as liabilities in the governmental funds.	<u>(124,711)</u>	<u>(139,102)</u>
Net Assets of Governmental Activities	<u>\$ 728,638</u>	<u>\$ 675,703</u>

The accompanying notes are an integral part of these statements.

THE TOWN OF BROOKEVILLE, MARYLAND
Statements of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30,

	2006	2005
	General	General
	Fund	Fund
	<hr/>	<hr/>
Revenues		
General property taxes	\$ 25,451	\$ 23,491
State shared taxes	117,007	72,485
Licenses and permits	2,123	1,642
Intergovernmental revenue	15,203	10,740
Grant revenue	800	-
Miscellaneous	<u>9,079</u>	<u>11,502</u>
Total Revenues	<u>169,663</u>	<u>119,860</u>
Expenditures		
General government	54,311	53,448
Public works	40,244	83,855
Debt service	25,321	159,662
Parks and recreation	<u>309</u>	<u>906</u>
Total Expenditures	<u>120,185</u>	<u>297,871</u>
Excess of Revenues Over (Under) Expenditures	49,478	(178,011)
Other Financing Sources		
Proceeds from refinance of mortgage	-	140,290
Fund Balance at Beginning of Year	<u>112,970</u>	<u>150,691</u>
Fund Balance at End of Year	<u>\$ 162,448</u>	<u>\$ 112,970</u>

The accompanying notes are an integral part of these statements.

TOWN OF BROOKEVILLE, MARYLAND
Reconciliation of the Statements of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statements of Activities
For the Years Ended June 30,

	<u>2006</u>	<u>2005</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 49,478	\$ (37,721)
Amounts reported for governmental activities in the statement of activities are different because:		
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	198	5
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(11,132)	27,164
Proceeds from the refinance of the mortgage on the Academy is reported as other financing sources in the governmental funds, but the proceeds increase the loan balance in the Statement of Net Assets.	-	(140,290)
Repayment of note payable is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	<u>14,391</u>	<u>150,515</u>
Net Change in Net Assets	<u>\$ 52,935</u>	<u>\$ (327)</u>

The accompanying notes are an integral part of these statements.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town of Brookeville (Town) was incorporated in 1808 under the laws of the State of Maryland. The Town operates under a Commission form of government consisting of a President and Town Commissioners. The Town provides the following services as authorized by its charter: highways and streets, planning and zoning, sanitation, and general administration services. The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for established governmental and financial reporting principles. The Town implemented the new accounting and financial reporting requirements of GASB Statements No. 34, Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. As a result, an entirely new financial reporting format is presented. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis -- A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements -- These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets -- The Statement of Net Assets displays the financial position of the Town. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense -- the cost of "using up" capital assets -- in the Statement of Activities. The net assets of a government are broken into three categories -- 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities -- The Statement of Program Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants.)

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Budgetary Comparison Schedules – 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 operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

The financial statements were prepared in accordance with GASB Statement No. 14, The Financial Reporting Entity, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with the basis for assessing the accountability of the elected officials. The financial reporting entity consists of the Town of Brookeville. There are no organizations for which the Town is financially accountable and there are no component units of the Town.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The reporting model focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary fund. The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the non-fiduciary activities of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. The Town does not have any business-type or fiduciary fund activities at this time.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements (continued)

The statement of activities 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 properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reduction to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants and similar items are recognized when the grantor eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. For this purpose, the Town considers revenue to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation debt principal and interest payments which are reported as expenditures in the year due.

Property taxes, franchise fees, utility taxes, licenses, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The Town reports the following major governmental fund:

The General Fund – This is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

D. Assets, Liabilities and Net Assets

1. Deposits and Investments

Cash and cash equivalents, which are cash and money market accounts, include cash on hand and demand deposit accounts. The Town reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

2. Prepaid Expenses

Prepaid expenses record payments to vendors that benefit future reporting periods. Prepaid expenses are similarly reported in government-wide and fund financial statements.

3. Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of five years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. General infrastructure assets acquired prior to July 1, 2005 are not reported in the basic financial statements. At June 30, 2006 and 2005, there is \$34,925 of infrastructure recorded on the books. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure – 40 years

Buildings – 40 years

Improvements – 40 years

Equipment:

Office and other equipment 5 to 10 years

4. Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as a liability.

5. Fund Equity

The governmental fund financial statements report reserved fund balances for amounts not available for appropriation or legally restricted for specified purposes.

6. Property Taxes

Property taxes for the years ended June 30, 2006 and 2005 were assessed and collected by Montgomery County and subsequently remitted to the Town. Property taxes are assessed on July 1st and are due and payable one half by September 30th and one half by December 31st. All unpaid taxes levied July 1st become delinquent on October 1st and January 1st. The real property tax rates for the Town for fiscal years ended June 30, 2006 and 2005 was .15, respectively, per \$100 of assessed taxable value. The public utilities, corporate and personal property tax rates for the Town for the fiscal years ended June 30, 2006 and 2005 was .45, respectively, per \$100 of assessed taxable value. Procedures for the collection of delinquent taxes by Montgomery County are provided for in the laws of Maryland.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

7. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance and the government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.

B. Deposits and Investments

Deposits

State statutes require all deposits be insured by the Federal Depository Insurance Corporation (FDIC) or fully collateralized.

Town administration is authorized to invest in those instruments authorized by Maryland Statutes. Cash and cash equivalents as presented on the balance sheet and statement of net assets include, deposits (cash), and money market accounts.

At June 30, 2006 and 2005, the carrying amount of the Town's deposits were \$144,511 and \$103,411, respectively, and the bank balances totaled \$146,664 and \$107,293 respectively, all of which are insured by Federal Deposit Insurance.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 3 – Detailed Notes on All Funds

C. Receivables

Receivables as of June 30, 2006 and 2005 for the Town's individual major and non-major governmental funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	<u>2006</u>	<u>2005</u>
Property taxes	\$ 273	\$ 75
Other	<u>3,315</u>	<u>900</u>
Gross Receivables	3,588	975
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>
Total Receivables - Net	<u>\$ 3,588</u>	<u>\$ 975</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2006 and 2005 the Town had no deferred revenue.

D. Due From Other Governments

Due from other governments represents accrued revenue at June 30, 2006 and 2005 consisting of the following:

	<u>2006</u>	<u>2005</u>
Primary Government		
State		
General Fund	\$ 19,106	\$ 13,209
Total State	<u>19,106</u>	<u>13,209</u>
County		
General Fund	<u>915</u>	<u>433</u>
Total County	<u>915</u>	<u>433</u>
Total Primary Government	<u>\$ 20,021</u>	<u>\$ 13,642</u>

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 3 – Detailed Notes on All Funds (continued)

E. Capital Assets

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

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 77,589	\$ -	\$ -	\$ 77,589
Construction in progress	<u>113,429</u>	<u>5,651</u>	<u>-</u>	<u>119,080</u>
Total capital assets, not being depreciated	<u>191,018</u>	<u>5,651</u>	<u>-</u>	<u>196,669</u>
 Capital assets, being depreciated				
Infrastructure	34,925	-	-	34,925
Buildings and improvements	628,199	-	-	628,199
Equipment	<u>21,438</u>	<u>-</u>	<u>-</u>	<u>21,438</u>
Total capital assets being depreciated	<u>684,562</u>	<u>-</u>	<u>-</u>	<u>684,562</u>
 Less accumulated depreciation for:				
Infrastructure	(13,090)	(873)	-	(13,963)
Buildings and improvements	(139,496)	(15,705)	-	(155,201)
Equipment	<u>(21,234)</u>	<u>(205)</u>	<u>-</u>	<u>(21,439)</u>
Total accumulated depreciation	<u>(173,820)</u>	<u>(16,783)</u>	<u>-</u>	<u>(190,603)</u>
Total capital assets, being depreciated, net	<u>510,742</u>	<u>(16,783)</u>	<u>-</u>	<u>493,959</u>
Governmental activities capital assets, net	<u>\$ 701,760</u>	<u>\$ (11,132)</u>	<u>\$ -</u>	<u>\$ 690,628</u>

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 3 – Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

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

	<u>2006</u>	<u>2005</u>
Governmental activities		
General government	\$ 15,910	\$ 16,191
Public works	<u>873</u>	<u>873</u>
 Total depreciation expense, governmental activities	 <u>\$ 16,783</u>	 <u>\$ 17,064</u>

F. Long-Term Debt

Changes in Long-Term Debt are as follows:

	<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>
	<u>June 30, 2006</u>		<u>June 30, 2006</u>
Notes payable	\$ 139,102	\$ -	\$ 14,391
	<u>\$ 139,102</u>	<u>\$ -</u>	<u>\$ 14,391</u>
	<u>\$ 124,711</u>		<u>\$ 124,711</u>

In 2001, the Town refinanced a construction loan for \$229,225. The loan is a deed of trust on the Academy's real estate. The note bears interest at 6.25% per annum and is payable in monthly installments of principal and interest of \$1,902. The note maturity date is March 5, 2005. On March 5, 2005, the Town refinanced the loan for \$140,290. The note bears interest at 7.45% per annum and is payable in monthly installments of principal and interest of \$1,485. The note maturity date is March 5, 2014, at which time the principal balance and any unpaid interest will be due. Interest expense for the years ended June 30, 2006 and 2005 were \$10,931 and \$9,147, respectively.

The principal payment requirements on debt for the next five fiscal years are as follows:

2007	\$ 8,827
2008	9,508
2009	10,241
2010	11,030
2011	11,881

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2006 and 2005

Note 3 – Detailed Notes on All Funds (continued)

G. Fund Balance

Reservations of Fund Balance

Reserve for prepaid expenses – these funds have been reserved for reported expenses in the general fund to comply with accounting standards.

Note 4 – Grants

The Town receives financial assistance from local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any unallowed disbursements resulting from such audits could become a liability of the Town. In the opinion of Town management, no material refunds will be required as a result of unallowed disbursements (if any), by the grantor agencies.

Note 5 – Commitment and Contingencies

A. Risk Management

The Town is exposed to various risks of loss related to torts, theft of or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the Town carries insurance through Montgomery County Self Insurance Pool together with the County Government's component units, and at least one other local municipality. For the years ended June 30, 2006 and 2005, the Town paid annual premiums of approximately \$5,133 and \$5,381, respectively, to the pool for its general, auto, and property insurance coverage. Claims over the past three years have been significantly less than that amount. The agreement with the pool provides that the pool will be self-sustaining through member premiums, and will reinsure through commercial companies for claims in excess of \$1,000,000.

The Town continues to carry commercial insurance for workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

THE TOWN OF BROOKEVILLE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For Year Ended June 30, 2006

	<u>Budgeted Amounts</u> <u>Original / Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Taxes			
Local			
Real property tax	\$ 23,745	\$ 24,231	\$ 486
Personal and ordinary business and public utilities	500	1,178	678
Total Taxes - Local	24,245	25,409	1,164
Additions and abatements - prior years	-	42	42
Total Taxes - Local - Net	24,245	25,451	1,206
State Shared			
Income taxes	50,000	117,007	67,007
Total Taxes - State Shared	50,000	117,007	67,007
Total Taxes	74,245	142,458	68,213
Licenses and Permits			
Licenses	-	14	14
Building permits	1,000	1,001	1
Other permits	-	500	500
Cable franchise tax	500	608	108
Total Licenses and Permits	1,500	2,123	623
Intergovernmental Revenues			
County revenue sharing	4,500	5,570	1,070
State highway user tax	7,620	9,589	1,969
Financial corporation -bank shares	-	44	44
Total Intergovernmental Revenues	\$ 12,120	\$ 15,203	\$ 3,083

Continued

THE TOWN OF BROOKEVILLE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For Year Ended June 30, 2006

	Budgeted Amounts	Actual	Variance with
	<u>Original / Final</u>	<u>Amounts</u>	Final Budget
			Positive
			(Negative)
Grants	\$ -	\$ 800	\$ 800
Miscellaneous			
Interest	1,000	2,059	1,059
Donations	-	50	50
Rental income	5,000	6,550	1,550
Miscellaneous	<u>1,000</u>	<u>420</u>	<u>(580)</u>
Total Miscellaneous	<u>7,000</u>	<u>9,079</u>	<u>2,079</u>
Total Revenues	<u>\$ 94,865</u>	<u>\$ 169,663</u>	<u>\$ 74,798</u>

Continued

THE TOWN OF BROOKEVILLE, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For Year Ended June 30, 2006

	Budgeted Amounts	Actual	Variance with
	<u>Original / Final</u>	<u>Amounts</u>	Final Budget
			Positive
			(Negative)
General Government			
Financial Administration			
Audit	\$ 4,320	\$ 4,500	\$ (180)
Business manager	5,130	4,992	138
Payroll taxes	1,850	1,231	619
Clerk - Treasurer	10,666	10,831	(165)
Dues and fees	1,000	685	315
Insurance	4,727	5,133	(406)
Legal	1,000	-	1,000
Office supplies	1,000	1,327	(327)
Technology/website	800	1,090	(290)
Planning commission	2,500	4,800	(2,300)
Planning commission salaries	2,100	2,143	(43)
Cable T.V. distribution	500	481	19
Other general government	-	1,350	(1,350)
Total Financial Administration	<u>35,593</u>	<u>38,563</u>	<u>(2,969)</u>
Town Building			
Advertising	250	344	(94)
Custodian	1,500	1,125	375
Furniture and equipment	-	527	(527)
Brookeville angel maintenance	2,000	-	2,000
Maintenance - Lawn	1,545	1,831	(286)
Maintenance - Building	5,000	786	4,214
Security and mechanical systems	3,090	3,726	(636)
Miscellaneous	-	454	(454)
Parking	500	-	500
Utilities	7,000	6,955	45
Total Town Building	<u>20,885</u>	<u>15,748</u>	<u>5,137</u>
Total General Government	\$ <u>56,478</u>	\$ <u>54,311</u>	\$ <u>2,167</u>

Continued

THE TOWN OF BROOKEVILLE, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For Year Ended June 30, 2006

	Budgeted Amounts	Actual	Variance with
	Original / Final	Amounts	Final Budget
			Positive
			(Negative)
Debt service			
Principal paid	\$ 14,390	\$ 14,390	\$ -
Interest paid	9,610	10,931	(1,321)
Total Debt Service	<u>24,000</u>	<u>25,321</u>	<u>(1,321)</u>
Public Works			
Solid waste and recycling	10,300	11,954	(1,654)
Schoolhouse restoration	500	5,651	(5,151)
Street light maintenance	3,500	555	2,945
Leaf removal	-	1,883	(1,883)
Public area maintenance	6,180	8,973	(2,793)
Road upkeep and repair	3,000	4,380	(1,380)
Sidewalks	10,000	-	10,000
Snow removal	1,000	765	235
Street light	3,200	3,761	(561)
Taxes - solid waste	-	189	(189)
Trees	4,000	1,955	2,045
Signs	-	178	(178)
Total Public Works	<u>41,680</u>	<u>40,244</u>	<u>1,436</u>
Parks and Recreation			
Party	-	309	(309)
Total Parks and Recreation	<u>-</u>	<u>309</u>	<u>(309)</u>
Total Expenditures	<u>\$ 122,158</u>	<u>\$ 120,185</u>	<u>\$ 1,973</u>

The accompanying notes are an integral part of this schedule.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Required Supplemental Information
June 30, 2006

Note 1 – Summary of Significant Budget Policies

The Town Commissioners annually adopt a budget for the General Fund of the primary government. All appropriations are legally controlled at the departmental level for the General Fund. On May 16, 2005, the Town Commissioners approved the original/final adopted budget reflected in the financial statements for fiscal year ending June 30, 2006.

The budget is integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Note 2 – Material Violations

There were no material violations of the annual appropriated budgets for the General Fund for the fiscal years ended June 30, 2006. In addition, there were no excesses of budgetary expenditures for the period.