

**TOWN OF BROOKEVILLE,
MARYLAND**

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

**For the Years Ended
June 30, 2007 and 2006**

TOWN OF BROOKEVILLE, MARYLAND
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June 30, 2007 and 2006

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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, and the general fund of the Town of Brookeville, Maryland (the Town), as of and for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, 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 inquires 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.

October 16, 2007

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, 2007. 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 2007 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 \$734,698 (net assets). Of this amount, \$163,636 (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 \$163,367 and the bank balances totaled \$167,274, all of which are insured by Federal Deposit Insurance as required by State law. Governmental fund revenues were \$148,242 and expenditures were \$148,121 for an increase in fund balance of \$121.
- Of revenues received, real property tax amounted to \$26,871. State shared taxes derived from income taxes amounted to \$87,678. Intergovernmental revenues through County revenue sharing and State Highway User taxes amounted to \$17,716. Revenue from miscellaneous sources included rental income of the Brookeville Academy of \$7,942 and \$5,240 received from interest, donations, and other sources.
- Capital assets with total cost of \$808,187 have been depreciated by \$210,272 for a net reported value of \$681,369.
- Long-term debt, represented by a refinanced construction loan for the restoration of and addition to the Brookeville Academy Community Center, amounted to \$110,307 at the end of the fiscal year (June 30, 2007). 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 \$75,265. Debt service including principal and interest on the Brookeville Academy loan amounted to \$23,321. Under the category of Public Works, including trash collection, recycling, street lighting, public area maintenance, trees, and capital costs such as sidewalks and the restoration of the Brookeville Schoolhouse, expenditures totaled \$48,623.

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 \$734,698 at the close of the most recent fiscal year.

Approximately 93% 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	\$ 173,241
Capital assets	<u>681,369</u>
Total assets	<u>854,610</u>
Other liabilities	19,113
Long-term liabilities	<u>100,799</u>
Total liabilities	<u>119,912</u>
Invested in capital assets, net of related debt	571,062
Unrestricted	<u>163,636</u>
Total net assets	<u>\$ 734,698</u>

The unrestricted net assets \$163,636 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 \$6,060.

Town of Brookeville - Changes in Net Assets

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 8,653
Operating grants and contributions	1,375
General revenues:	
Taxes	117,427
Other	<u>21,581</u>
Total Revenues	<u>149,036</u>
Expenses:	
General government	39,676
Building and zoning	51,812
Public works	41,659
Parks and recreation	912
Interest on long-term debt	<u>8,917</u>
Total Expenses	<u>142,976</u>
Increase in net assets	6,060
Net assets, July 1, 2006	<u>728,638</u>
Net assets, June 30, 2007	<u>\$ 734,698</u>

- Taxes of \$117,427 comprised 79% of the total revenues of \$149,036. 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 \$162,569.

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.

General Fund	Original/Final	
	<u>Budget</u>	<u>Actual</u>
Revenues		
Taxes	\$ 98,880	\$ 116,633
Intergovernmental	17,598	17,716
Other	<u>9,000</u>	<u>13,893</u>
Total Revenues	<u>125,478</u>	<u>148,242</u>
Total Expenditures	<u>165,500</u>	<u>148,121</u>
Change in Fund Balance	\$ <u>(40,022)</u>	\$ <u>121</u>

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.

The restoration of the Schoolhouse has been completed in fiscal year 2007. Sidewalk construction budgeted in fiscal year 2006 was not expended but we anticipate those funds will be expended in the new fiscal year. 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 2007, the Town's governmental activities have invested \$681,369 in land, construction in progress, infrastructure, building and improvements and equipment, as reflected in the following schedule.

Governmental Activities - Capital Assets

	<u>Governmental Activities</u>
Non-Depreciable Assets	
Land	\$ 77,589
Construction in progress	<u>5,865</u>
Total Non depreciable capital assets	83,454
Other Capital Assets	
Infrastructure	39,470
Building and improvements	747,279
Equipment	<u>21,438</u>
Total Capital Assets being depreciated	<u>808,187</u>
Total Capital Assets	891,641
Accumulated Depreciation on Other Capital Assets	<u>(210,272)</u>
Net Capital Assets	<u>\$ 681,369</u>

ECONOMIC FACTORS

The major economic factors that will affect the Town of Brookeville is the size of the State income tax share that the Town will receive in the 2008 fiscal year and the expenditures associated with infrastructure improvement and repair.

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 of requests for additional financial information should be addressed to the Town of Brookeville, P.O. Box 67, Brookeville, Maryland, 20833.

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

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Assets		
Cash and cash equivalents	\$ 163,367	\$ 144,511
Receivables, net	1,400	3,588
Due from other governments	4,249	20,021
Prepaid expenses	4,225	2,720
Capital assets, net	<u>681,369</u>	<u>690,628</u>
Total Assets	<u>\$ 854,610</u>	<u>\$ 861,468</u>
Liabilities		
Accounts payable	\$ 7,748	\$ 6,329
Deposits	400	600
Payroll taxes withheld and accrued	427	108
Accrued salaries	1,030	1,082
Long-term liabilities		
Due within one year	9,508	8,827
Due in more than one year	<u>100,799</u>	<u>115,884</u>
Total Liabilities	119,912	132,830
Net Assets		
Invested in capital assets, net of related debt	571,062	565,917
Unrestricted	<u>163,636</u>	<u>162,721</u>
Total Net Assets	<u>734,698</u>	<u>728,638</u>
Total Liabilities and Net Assets	<u>\$ 854,610</u>	<u>\$ 861,468</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, 2007 (with comparative totals for 2006)

	<u>Program Revenue</u>		<u>Operating</u>		2007	2006
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u>	<u>Governmental</u>	<u>Total</u>	<u>Total</u>
			<u>Contributions</u>	<u>Activities</u>		
Functions/Programs						
Governmental Activities						
General government	\$ 39,676	\$ -	\$ 1,375	\$ (38,301)	\$ (38,301)	\$ (38,767)
Building and zoning	51,812	8,653	-	(43,159)	(43,159)	(22,780)
Public works	41,659	-	-	(41,659)	(41,659)	(34,666)
Parks and recreation	912	-	-	(912)	(912)	(309)
Interest on Long-term debt	8,917	-	-	(8,917)	(8,917)	(10,931)
Total Governmental Activities	<u>\$ 142,976</u>	<u>\$ 8,653</u>	<u>\$ 1,375</u>	<u>(132,948)</u>	<u>(132,948)</u>	<u>(107,453)</u>
General Revenues						
Property taxes				29,749	29,749	25,649
Income taxes				87,678	87,678	117,007
Intergovernmental				17,716	17,716	15,203
Interest				3,815	3,815	2,059
Miscellaneous				50	50	470
Total General Revenues				<u>139,008</u>	<u>139,008</u>	<u>160,388</u>
Changes in Net Assets				6,060	6,060	52,935
Net Assets - Beginning of Year				<u>728,638</u>	<u>728,638</u>	<u>675,703</u>
Net Assets - End of Year				<u>\$ 734,698</u>	<u>\$ 734,698</u>	<u>\$ 728,638</u>

The accompanying notes are an integral part of this statement.

TOWN OF BROOKEVILLE, MARYLAND
Balance Sheets
Governmental Funds
June 30,

	General Fund 2007	General Fund 2006
Assets		
Cash and cash equivalents	\$ 163,367	\$ 144,511
Receivables, net	1,400	3,588
Due from other governments	4,249	20,021
Prepaid expenses	4,225	2,720
Total Assets	<u>\$ 173,241</u>	<u>\$ 170,840</u>
Liabilities		
Accounts payable	\$ 7,748	\$ 6,329
Deposits	400	600
Payroll taxes withheld and accrued	427	108
Accrued salaries	1,030	1,082
Deferred property taxes	1,067	273
Total Liabilities	<u>10,672</u>	<u>8,392</u>
Fund Balances		
Unreserved, undesignated	158,344	159,728
Reserved for prepaid expenses	4,225	2,720
Total Fund Balance	<u>162,569</u>	<u>162,448</u>
Total Liabilities and Fund Balances	<u>\$ 173,241</u>	<u>\$ 170,840</u>
Reconciliation of Total Governmental Fund Balances To Net Assets of the Governmental Activities		
Total Governmental Fund Balances	\$ 162,569	\$ 162,448
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.	1,067	273
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	681,369	690,628
Long-term liabilities are not reported as liabilities in the governmental funds.	<u>(110,307)</u>	<u>(124,711)</u>
Net Assets of Governmental Activities	<u>\$ 734,698</u>	<u>\$ 728,638</u>

The accompanying notes are an integral part of these statements.

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

	2007	2006
	General	General
	Fund	Fund
	<u> </u>	<u> </u>
Revenues		
General property taxes	\$ 28,955	\$ 25,451
State shared taxes	87,678	117,007
Licenses and permits	711	2,123
Intergovernmental revenue	17,716	15,203
Grant revenue	-	800
Miscellaneous	<u>13,182</u>	<u>9,079</u>
 Total Revenues	 <u>148,242</u>	 <u>169,663</u>
 Expenditures		
General government	75,265	54,311
Public works	48,623	40,244
Debt service	23,321	25,321
Parks and recreation	<u>912</u>	<u>309</u>
 Total Expenditures	 <u>148,121</u>	 <u>120,185</u>
 Excess of Revenues Over Expenditures	 121	 49,478
 Fund Balance at Beginning of Year	 <u>162,448</u>	 <u>112,970</u>
 Fund Balance at End of Year	 <u><u>\$ 162,569</u></u>	 <u><u>\$ 162,448</u></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>2007</u>	<u>2006</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 121	\$ 49,478
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	794	198
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.	(9,259)	(11,132)
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>14,404</u>	<u>14,391</u>
Net Change in Net Assets	<u>\$ 6,060</u>	<u>\$ 52,935</u>

The accompanying notes are an integral part of these statements.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007 and 2006

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 has only one governmental fund, the general fund, to account for all activities of the government, and does not have any business-type or fiduciary fund activities at this time.

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.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

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.

The Town reports the following major governmental fund:

The General Fund – This is the Town's only 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.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

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, 2007 and 2006, there is \$39,471 and \$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.

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.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

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, 2007 and 2006 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, 2007 and 2006 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, 2007 and 2006 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.

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.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007 and 2006, the carrying amount of the Town's deposits were \$163,367 and \$144,511, respectively, and the bank balances totaled \$167,274 and \$146,664 respectively, all of which are insured by Federal Deposit Insurance.

- C. Receivables

Receivables as of June 30, 2007 and 2006 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>2007</u>	<u>2006</u>
Property taxes	\$ 1,400	\$ 273
Other	-	3,315
Gross Receivables	<u>1,400</u>	<u>3,588</u>
Less: allowance for uncollectibles	-	-
Total Receivables - Net	<u>\$ 1,400</u>	<u>\$ 3,588</u>

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 3 – Detailed Notes on All Funds

C. Receivables

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, 2007 and 2006 the Town had \$1,067 and \$273, respectively in deferred revenue.

D. Due From Other Governments

Due from other governments represents accrued revenue at June 30, 2007 and 2006 consisting of the following:

	<u>2007</u>	<u>2006</u>
Primary Government		
State		
General Fund	\$ 4,076	\$ 19,106
Total State	<u>4,076</u>	<u>19,106</u>
County		
General Fund	<u>173</u>	<u>915</u>
Total County	<u>173</u>	<u>915</u>
Total Primary Government	<u>\$ 4,249</u>	<u>\$ 20,021</u>

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 3 – Detailed Notes on All Funds (continued)

E. Capital Assets

Capital asset activity for the year ended June 30, 2007 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>119,080</u>	<u>5,865</u>	<u>119,080</u>	<u>5,865</u>
Total capital assets, not being depreciated	<u>196,669</u>	<u>5,865</u>	<u>119,080</u>	<u>83,454</u>
Capital assets, being depreciated				
Infrastructure	34,925	4,545	-	39,470
Buildings and improvements	628,199	119,080	-	747,279
Equipment	<u>21,438</u>	<u>-</u>	<u>-</u>	<u>21,438</u>
Total capital assets being depreciated	<u>684,562</u>	<u>123,625</u>	<u>-</u>	<u>808,187</u>
Less accumulated depreciation for:				
Infrastructure	(13,963)	(987)	-	(14,950)
Buildings and improvements	(155,201)	(18,682)	-	(173,883)
Equipment	<u>(21,439)</u>	<u>-</u>	<u>-</u>	<u>(21,439)</u>
Total accumulated depreciation	<u>(190,603)</u>	<u>(19,669)</u>	<u>-</u>	<u>(210,272)</u>
Total capital assets, being depreciated, net	<u>493,959</u>	<u>103,956</u>	<u>-</u>	<u>597,915</u>
Governmental activities capital assets, net	<u>\$ 690,628</u>	<u>\$ 109,821</u>	<u>\$ 119,080</u>	<u>\$ 681,369</u>

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

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:

Governmental activities	<u>2007</u>	<u>2006</u>
General government	\$ 16,223	\$ 15,910
Public works	<u>3,446</u>	<u>873</u>
Total depreciation expense, governmental activities	<u>\$ 19,669</u>	<u>\$ 16,783</u>

F. Long-Term Debt

Changes in Long-Term Debt are as follows:

	Balance			Balance
	July 1, 2006	Additions	Reductions	June 30, 2007
Notes payable	<u>\$ 124,711</u>	<u>\$ -</u>	<u>\$ 14,404</u>	<u>\$ 110,307</u>
	<u>\$ 124,711</u>	<u>\$ -</u>	<u>\$ 14,404</u>	<u>\$ 110,307</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, 2007 and 2006 were \$8,917 and \$10,931, respectively.

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

2008	\$ 9,508
2009	10,241
2010	11,030
2011	11,881
2012	12,797

TOWN OF BROOKEVILLE, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

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, 2007 and 2006, the Town paid annual premiums of approximately \$5,001 and \$5,133, 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

TOWN OF BROOKEVILLE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For Year Ended June 30, 2007

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original / Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>Positive</u>
			<u>(Negative)</u>
Taxes			
Local			
Real property tax	\$ 24,380	\$ 26,871	\$ 2,491
Personal and ordinary business and public utilities	500	2,126	1,626
Total Taxes - Local	24,880	28,997	4,117
Additions and abatements - prior years	-	(42)	(42)
Total Taxes - Local - Net	24,880	28,955	4,075
State Shared			
Income taxes	74,000	87,678	13,678
Total Taxes - State Shared	74,000	87,678	13,678
Total Taxes	98,880	116,633	17,753
Licenses and Permits			
Licenses	-	14	14
Building permits	1,000	25	(975)
Other permits	-	-	-
Cable franchise tax	500	672	172
Total Licenses and Permits	1,500	711	(789)
Intergovernmental Revenues			
County revenue sharing	7,158	7,158	-
State highway user tax	10,440	10,514	74
Financial corporation -bank shares	-	44	44
Total Intergovernmental Revenues	\$ 17,598	\$ 17,716	\$ 118

Continued

TOWN OF BROOKEVILLE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For Year Ended June 30, 2007

	<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>
Miscellaneous			
Interest	\$ 1,500	\$ 3,815	\$ 2,315
Donations	-	50	50
Rental income	5,500	7,942	2,442
Deeds Wells Fund	-	1,375	1,375
Miscellaneous	500	-	(500)
Total Miscellaneous	<u>7,500</u>	<u>13,182</u>	<u>5,682</u>
Total Revenues	<u>\$ 125,478</u>	<u>\$ 148,242</u>	<u>\$ 22,764</u>

Continued

TOWN OF BROOKEVILLE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For Year Ended June 30, 2007

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Original / Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>Positive</u>
			<u>(Negative)</u>
General Government			
Financial Administration			
Audit	\$ 4,500	\$ 5,000	\$ (500)
Business manager	5,000	5,130	(130)
Payroll taxes	1,850	1,925	(75)
Clerk	6,600	7,062	(462)
Treasurer	4,400	4,650	(250)
Dues and fees	1,000	569	431
Insurance	5,000	5,001	(1)
Legal	1,000	-	1,000
Office supplies	1,000	1,407	(407)
Technology/website	800	2,084	(1,284)
Planning commission	2,500	757	1,743
Planning commission salaries	2,100	1,938	162
Cable T.V. distribution	500	672	(172)
Other general government	-	3,481	(3,481)
Total Financial Administration	<u>36,250</u>	<u>39,676</u>	<u>(3,426)</u>
Town Building			
Advertising	250	202	48
Custodian	1,300	2,200	(900)
Brookeville angel maintenance	2,000	-	2,000
Maintenance - Lawn	-	13,950	(13,950)
Maintenance - Building	3,000	6,334	(3,334)
Security and mechanical systems	3,200	4,326	(1,126)
Miscellaneous	-	35	(35)
Parking	500	1,000	(500)
Utilities	7,500	7,542	(42)
Total Town Building	<u>17,750</u>	<u>35,589</u>	<u>(17,839)</u>
Total General Government	<u>\$ 54,000</u>	<u>\$ 75,265</u>	<u>\$ (21,265)</u>

Continued

TOWN OF BROOKEVILLE, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For Year Ended June 30, 2007

	Budgeted Amounts	Actual	Variance with
	<u>Original / Final</u>	<u>Amounts</u>	Final Budget
			Positive (Negative)
Debt service			
Principal paid	\$ 14,390	\$ 14,404	\$ (14)
Interest paid	9,610	8,917	693
Total Debt Service	<u>24,000</u>	<u>23,321</u>	<u>679</u>
Public Works			
Solid waste and recycling	10,300	12,023	(1,723)
Schoolhouse restoration	500	3,338	(2,838)
Street light maintenance	3,500	7,599	(4,099)
Grounds maintenance	1,600	-	1,600
Leaf removal	-	1,380	(1,380)
Public area maintenance	7,200	12,698	(5,498)
Roads maintenance	5,000	730	4,270
Sidewalks	50,000	-	50,000
Snow removal	1,200	1,330	(130)
Street light	4,200	4,337	(137)
Taxes - solid waste	-	158	(158)
Trees	4,000	5,030	(1,030)
Total Public Works	<u>87,500</u>	<u>48,623</u>	<u>38,877</u>
Parks and Recreation			
Party	-	912	(912)
Total Parks and Recreation	<u>-</u>	<u>912</u>	<u>(912)</u>
Total Expenditures	<u>\$ 165,500</u>	<u>\$ 148,121</u>	<u>\$ 17,379</u>

The accompanying notes are an integral part of this schedule.

TOWN OF BROOKEVILLE, MARYLAND
Notes to Required Supplemental Information
June 30, 2007

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 15, 2006, the Town Commissioners approved the original/final adopted budget reflected in the financial statements for fiscal year ending June 30, 2007.

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, 2007. In addition, there were no excesses of budgetary expenditures for the period.