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**TOWN OF BROOKEVILLE,  
MARYLAND**

**Financial Statements,  
Supplementary Information and  
Report of Independent Certified Public  
Accountants**

**For the Years Ended  
June 30, 2011 and 2010**

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**LSWG**

**Linton Shafer Warfield & Garrett, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS**

**TOWN OF BROOKEVILLE, MARYLAND**  
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**June 30, 2011 and 2010**

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

JENNIFER P. CLINGAN, CPA  
EDWARD T. GARRETT, CPA  
MEREDITH C. HARSHMAN, CPA  
PAUL D. HEMME, CPA  
KEVIN R. HESSLER, CPA  
LISA D. LANDAVERDE, CPA  
DONALD C. LINTON, CPA, CFP, PFS  
JOSEPH M. MCCATHRAN, CPA  
BRIAN E. RIPPEON, CPA  
BARBARA CLINE-ROMAN, CPA  
RONALD W. SHAFER, CPA  
DOUGLAS C. WARFIELD, CPA, CVA

## **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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

October 13, 2011

*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, 2011. 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 2011 was \$0.15 and the personal property tax rate was \$0.45. Our Net Assessable Tax Base was \$26,683,472. 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 \$977,001 (net assets). Of this amount, \$381,721 (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 \$380,011 and the bank balances totaled \$381,865. Governmental fund revenues were \$195,917 and expenditures were \$128,178 for an increase in fund balance of \$67,739.
- Of revenues received, property taxes amounted to \$42,747. State shared taxes derived from income taxes amounted to \$111,675. Intergovernmental revenues through County revenue sharing and State Highway User taxes amounted to \$6,846. Revenue from miscellaneous sources included rental income of the Brookeville Academy of \$20,555, and \$12,951 received from interest, donations, and other sources.
- Capital assets with total cost of \$923,708 have been depreciated by \$289,629 for a net reported value of \$634,079.
- Long-term debt, represented by a refinanced construction loan for the restoration of and addition to the Brookeville Academy Community Center, amounted to \$38,799 at June 30, 2011. 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 \$64,859. 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 \$38,109.

## 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 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 \$977,001 at the close of the most recent fiscal year.

Approximately 61% 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	\$ 386,416
Capital assets	<u>634,079</u>
Total assets	<u>1,020,495</u>
Other liabilities	20,146
Long-term liabilities	<u>23,348</u>
Total liabilities	<u>43,494</u>
Invested in capital assets, net of related debt	595,280
Unrestricted	<u>381,721</u>
Total net assets	<u>\$ 977,001</u>

The unrestricted net assets \$381,721 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 \$65,103.

**Town of Brookeville - Changes in Net Assets**

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 32,211
Operating grants and contributions	718
General revenues:	
Taxes	154,422
Other	<u>7,423</u>
Total Revenues	<u>161,845</u>
Expenses:	
General government	45,446
Building and zoning	40,168
Public works	38,413
Parks and recreation	1,889
Interest on long-term debt	<u>3,755</u>
Total Expenses	<u>129,671</u>
Increase in net assets	65,103
Net assets, July 1, 2010	<u>911,898</u>
Net assets, June 30, 2011	<u>\$ 977,001</u>

- Taxes of \$154,422 comprised 79% of the total revenues of \$194,774. 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Town of Brookeville governmental funds reported a combined ending fund balance of \$380,914.

**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.

<b>General Fund</b>	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>
Revenues			
Taxes	\$131,200	\$ 131,200	\$ 155,565
Intergovernmental	6,172	6,172	6,846
Other	<u>13,028</u>	<u>13,028</u>	<u>33,506</u>
Total Revenues	<u>150,400</u>	<u>150,400</u>	<u>195,917</u>
Total Expenditures	<u>142,200</u>	<u>142,200</u>	<u>128,178</u>
Change in Fund Balance	<u>\$ 8,200</u>	<u>\$ 8,200</u>	<u>\$ 67,739</u>

The Town anticipates future increases in real estate taxes as additional 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. State income tax revenue decreased from the prior year. Rental revenues from the Brookeville Academy Community Center increased as compared to the previous year. The Town expects comparable or increased rental income due to the competitive pricing the Academy offers compared to similar resources in the area.

The Town has added additional maintenance and capital allocations in future budgets as it incorporates the new North Street developments.

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 2011, the Town's governmental activities have invested \$634,079 in land, construction in progress, infrastructure, building and improvements and equipment, as reflected in the following schedule.

### Governmental Activities - Capital Assets

	Governmental <u>Activities</u>
Non-Depreciable Assets	
Land	\$ 77,589
Power Woods park land improvements	<u>5,865</u>
Total Non depreciable capital assets	83,454
Other Capital Assets	
Infrastructure	58,847
Building and improvements	759,968
Equipment	<u>21,439</u>
Total Capital Assets being depreciated	<u>840,254</u>
Total Capital Assets	923,708
Accumulated Depreciation on	
Other Capital Assets	<u>(289,629)</u>
Net Capital Assets	<u>\$ 634,079</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 2012 fiscal year and the expenditures associated with infrastructure improvement, maintenance, 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 or 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,**

	<b>Governmental Activities <u>2011</u></b>	<b>Governmental Activities <u>2010</u></b>
<b>Assets</b>		
Cash and cash equivalents	\$ 380,011	\$ 300,308
Receivables, net	808	1,950
Due from other governments	2,552	14,306
Prepaid expenses	3,045	6,265
Capital assets, net	<u>634,079</u>	<u>655,137</u>
Total Assets	<u>\$ 1,020,495</u>	<u>\$ 977,966</u>
<b>Liabilities</b>		
Accounts payable	\$ 2,319	\$ 5,964
Deposits	1,500	750
Payroll taxes withheld and accrued	876	989
Long-term liabilities		
Due within one year	15,451	13,942
Due in more than one year	<u>23,348</u>	<u>44,423</u>
Total Liabilities	43,494	66,068
<b>Net Assets</b>		
Invested in capital assets, net of related debt	595,280	596,772
Unrestricted	<u>381,721</u>	<u>315,126</u>
Total Net Assets	<u>977,001</u>	<u>911,898</u>
Total Liabilities and Net Assets	<u>\$ 1,020,495</u>	<u>\$ 977,966</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, 2011 (with comparative totals for 2010)**

	Program Revenue		Operating			
	Charges for	Grants and	Governmental	Governmental	2011	2010
<u>Expenses</u>	<u>Services</u>	<u>Contributions</u>	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Total</u>
<b>Functions/Programs</b>						
Governmental Activities						
General government	\$ 45,446	\$ -	\$ (45,446)	\$ (45,446)	\$ (45,446)	\$ (47,638)
Building and zoning	40,168	21,659	(18,509)	(18,509)	(18,509)	(21,102)
Public works	38,413	10,552	718	(27,143)	(27,143)	(42,328)
Parks and recreation	1,889	-	-	(1,889)	(1,889)	(1,896)
Interest on long-term debt	3,755	-	-	(3,755)	(3,755)	(4,703)
Total Governmental Activities	\$ 129,671	\$ 32,211	\$ 718	(96,742)	(96,742)	(117,667)
General Revenues						
Property taxes			42,747	42,747	42,747	42,585
Income taxes			111,675	111,675	111,675	141,607
Intergovernmental			6,128	6,128	6,128	8,375
Interest			985	985	985	824
Loss on disposal of property and equipment			-	-	-	(1,950)
Miscellaneous			310	310	310	768
Total General Revenues			161,845	161,845	161,845	192,209
Changes in Net Assets			65,103	65,103	65,103	74,542
Net Assets - Beginning of Year			911,898	911,898	911,898	837,356
Net Assets - End of Year			\$ 977,001	\$ 977,001	\$ 977,001	\$ 911,898

The accompanying notes are an integral part of this statement.

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

	<b>General Fund <u>2011</u></b>	<b>General Fund <u>2010</u></b>
<b>Assets</b>		
Cash and cash equivalents	\$ 380,011	\$ 300,308
Receivables, net	808	1,950
Due from other governments	2,552	14,306
Prepaid expenses	<u>3,045</u>	<u>6,265</u>
<b>Total Assets</b>	<b><u>\$ 386,416</u></b>	<b><u>\$ 322,829</u></b>
<b>Liabilities</b>		
Accounts payable	\$ 2,319	\$ 5,964
Deposits	1,500	750
Payroll taxes withheld and accrued	876	989
Deferred property taxes	<u>807</u>	<u>1,951</u>
Total Liabilities	<u>5,502</u>	<u>9,654</u>
<b>Fund Balances</b>		
Nonspendable		
Prepaid expenses	3,045	6,265
Assigned		
Projects approved by resolution	13,200	-
Unassigned	<u>364,669</u>	<u>306,910</u>
Total Fund Balance	<u>380,914</u>	<u>313,175</u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 386,416</u></b>	<b><u>\$ 322,829</u></b>
<b>Reconciliation of Total Governmental Fund Balances To Net</b>		
<b>Assets of the Governmental Activities</b>		
Total Governmental Fund Balances	\$ 380,914	\$ 313,175
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.	807	1,951
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	634,079	655,137
Long-term liabilities are not reported as liabilities in the governmental funds.	<u>(38,799)</u>	<u>(58,365)</u>
Net Assets Governmental Activities	<b><u>\$ 977,001</u></b>	<b><u>\$ 911,898</u></b>

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,**

	<b>2011</b>	<b>2010</b>
	<b>General</b>	<b>General</b>
	<b>Fund</b>	<b>Fund</b>
	<u>          </u>	<u>          </u>
<b>Revenues</b>		
General property taxes	\$ 43,890	\$ 41,038
State shared taxes	111,675	141,607
Licenses and permits	1,104	1,409
Intergovernmental revenue	6,846	8,375
Grant revenue	-	3,174
Miscellaneous	<u>32,402</u>	<u>18,142</u>
Total Revenues	<u>195,917</u>	<u>213,745</u>
<b>Expenditures</b>		
General government	64,859	70,112
Public works	38,109	52,714
Debt service	23,321	23,821
Parks and recreation	<u>1,889</u>	<u>1,896</u>
Total Expenditures	<u>128,178</u>	<u>148,543</u>
Excess of Revenues Over Expenditures	67,739	65,202
<b>Fund Balance at Beginning of Year</b>	<u>313,175</u>	<u>247,973</u>
<b>Fund Balance at End of Year</b>	<u>\$ 380,914</u>	<u>\$ 313,175</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 Statement of Activities**  
**For the Years Ended June 30,**

	<u>2011</u>	<u>2010</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 67,739	\$ 65,202
Amounts reported for governmental activities in the statement of activities are different because:		
Property tax revenues in the Statement of Activities that (do) do not provide current financial resources are not reported as revenues in the funds.	(1,143)	1,547
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.	(21,059)	(11,325)
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>19,566</u>	<u>19,118</u>
Net Change in Net Assets	<u>\$ 65,103</u>	<u>\$ 74,542</u>

The accompanying notes are an integral part of these statements.

**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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, 2011 and 2010**

**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, 2011 and 2010**

**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, 2011 and 2010**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**D. Assets, Liabilities and Net Assets (continued)**

2. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both 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, 2011 and 2010, there is \$58,847 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, 2011 and 2010**

**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, 2011 and 2010 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, 2011 and 2010 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, 2011 and 2010 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, 2011 and 2010**

**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, 2011 and 2010, the carrying amount of the Town's deposits were \$380,011 and \$300,308, respectively, and the bank balances totaled \$381,865 and \$300,682 respectively. Accounts at each institution are insured by Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2011, the uninsured cash balance was \$33,873. The Town has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on deposits.

- C. Receivables

Receivables as of June 30, 2011 and 2010 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>2011</u>	<u>2010</u>
Property taxes	\$ 808	\$ 1,950
Gross Receivables	808	1,950
Less: allowance for uncollectibles	-	-
Total Receivables - Net	<u>\$ 808</u>	<u>\$ 1,950</u>

**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 3 – Detailed Notes on All Funds**

C. Receivables (continued)

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, 2011 and 2010 the Town had \$807 and \$1,951, respectively in deferred revenue.

D. Due From Other Governments

Due from other governments represents accrued revenue at June 30, 2011 and 2010 consisting of the following:

	<u>2011</u>	<u>2010</u>
Primary Government		
Federal		
General Fund	\$ 1,362	\$ 3,174
Total Federal	<u>1,362</u>	<u>3,174</u>
State		
General Fund	<u>440</u>	<u>9,424</u>
Total State	<u>440</u>	<u>9,424</u>
County		
General Fund	<u>750</u>	<u>1,708</u>
Total County	<u>750</u>	<u>1,708</u>
Total Primary Government	<u>\$ 2,552</u>	<u>\$ 14,306</u>

**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 3 – Detailed Notes on All Funds (continued)**

**E. Capital Assets**

Capital asset activity for the year ended June 30, 2011 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
Power Woods Park land improvement	5,865	-	-	5,865
Total capital assets, not being depreciated	<u>83,454</u>	<u>-</u>	<u>-</u>	<u>83,454</u>
Capital assets, being depreciated				
Infrastructure	58,847	-	-	58,847
Buildings and improvements	759,968	-	-	759,968
Equipment	21,439	-	-	21,439
Total capital assets being depreciated	<u>840,254</u>	<u>-</u>	<u>-</u>	<u>840,254</u>
Less accumulated depreciation for:				
Infrastructure	(16,452)	(1,530)	-	(17,982)
Buildings and improvements	(230,680)	(19,528)	-	(250,208)
Equipment	(21,439)	-	-	(21,439)
Total accumulated depreciation	<u>(268,571)</u>	<u>(21,058)</u>	<u>-</u>	<u>(289,629)</u>
Total capital assets, being depreciated, net	<u>571,683</u>	<u>(21,058)</u>	<u>-</u>	<u>550,625</u>
Governmental activities capital assets, net	<u>\$ 655,137</u>	<u>\$ (21,058)</u>	<u>\$ -</u>	<u>\$ 634,079</u>

**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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>2011</u>	<u>2010</u>	
General government	\$ 17,069	\$ 16,840	
Public works	<u>3,989</u>	<u>3,876</u>	
Total depreciation expense, governmental activities	<u>\$ 21,058</u>	<u>\$ 20,716</u>	

F. Long-Term Debt

Changes in Long-Term Debt are as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>
Notes payable	<u>\$ 58,365</u>	<u>\$ -</u>	<u>\$ 19,566</u>	<u>\$ 38,799</u>
	<u>\$ 58,365</u>	<u>\$ -</u>	<u>\$ 19,566</u>	<u>\$ 38,799</u>

On March 5, 2005, the Town refinanced a 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 loan is a deed of trust on the Academy's real estate. 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, 2011 and 2010 were \$3,755 and \$4,703, respectively.

The principal payment requirements on debt for future fiscal years are as follows:

2012	\$	15,451
2013		16,642
2014		6,706



**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 3 – Detailed Notes on All Funds (continued)**

G. Fund Balance

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable – such as fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable and property held for resale.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the Town of Brookeville.

Assigned fund balance – includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance – is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Town's Committed Fund Balance is fund balance reporting because of motions that passed at Town Council meetings. The Town currently has no committed fund balances.

Assigned Fund Balance

The Town's Assigned Fund Balance is fund balance reporting occurring by the Mayor and Town Council under the direction of the Town Manager.

**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 3 – Detailed Notes on All Funds (continued)**

G. Fund Balance (continued)

The Town utilizes encumbrance based accounting. As of June 30, 2011, there was a cumulative \$13,200 of non-restricted encumbrances, which is general fund assigned fund balance. The following is a schedule of the assigned fund balances as of June 30, 2011:

Brookeville angel maintenance	\$ 2,000
Stucco repairs	7,500
Exterior painting	<u>3,700</u>
	<u>\$ 13,200</u>

Order of Fund Balance Spending Policy

The Town's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year.

First non-spendable fund balance is determined. Then restricted fund balances for specific purposes are determined, followed by committed fund balance and assigned fund balance. Unassigned fund balance cannot fall to a negative balance.

**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.

**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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, 2011 and 2010, the Town paid annual premiums of approximately \$2,674 and \$3,108, 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.

**Note 6 – Subsequent Events**

Management has evaluated subsequent events through October 13, 2011, the date that the financial statements were available to be issued. There were no significant events to report.

**REQUIRED SUPPLEMENTAL INFORMATION**

## TOWN OF BROOKEVILLE, MARYLAND

## Required Supplemental Information

## Budgetary Comparison Schedule

## General Fund

For Year Ended June 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>Taxes</b>				
<b>Local</b>				
Real property tax	\$ 37,788	\$ 37,788	\$ 40,025	\$ 2,237
Personal and ordinary business and public utilities	2,242	2,242	3,638	1,396
Total Taxes - Local	40,030	40,030	43,663	3,633
Additions and abatements - prior years	-	-	227	227
Total Taxes - Local - Net	40,030	40,030	43,890	3,860
<b>State Shared</b>				
Income taxes	91,170	91,170	111,675	20,505
Total Taxes - State Shared	91,170	91,170	111,675	20,505
Total Taxes	131,200	131,200	155,565	24,365
<b>Licenses and Permits</b>				
Building permits	200	200	167	(33)
Cable franchise tax	768	768	937	169
Total Licenses and Permits	968	968	1,104	135
<b>Intergovernmental Revenues</b>				
County revenue sharing	5,369	5,369	6,084	715
State highway user tax	803	803	718	(85)
Financial corporation -bank shares	-	-	44	44
Total Intergovernmental Revenues	\$ 6,172	\$ 6,172	\$ 6,846	\$ 674

Continued

**TOWN OF BROOKEVILLE, MARYLAND**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For Year Ended June 30, 2011**

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Miscellaneous</b>				
Interest	\$ 560	\$ 560	\$ 985	\$ 425
Insurance reimbursements	-	-	10,552	10,552
Rental income	11,000	11,000	20,555	9,555
Miscellaneous	<u>500</u>	<u>500</u>	<u>310</u>	<u>(190)</u>
Total Miscellaneous	<u>12,060</u>	<u>12,060</u>	<u>32,402</u>	<u>20,342</u>
 <b>Total Revenues</b>	 <u>\$ 150,400</u>	 <u>\$ 150,400</u>	 <u>\$ 195,917</u>	 <u>\$ 45,516</u>

Continued

**TOWN OF BROOKEVILLE, MARYLAND**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For Year Ended June 30, 2011**

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>General Government</b>				
Financial Administration				
Audit	\$ 5,800	\$ 5,800	\$ 5,500	\$ 300
Accounting	2,500	2,500	550	1,950
Business manager	6,441	6,441	6,441	-
Payroll taxes	3,800	3,800	1,926	1,874
Clerk	8,160	8,160	8,160	-
Treasurer	5,794	5,794	5,794	-
Donations	-	-	700	(700)
Dues and fees	1,000	1,000	644	356
Insurance	2,600	2,600	2,674	(74)
Legal	1,000	1,000	4,868	(3,868)
Office supplies	2,000	2,000	2,565	(565)
Technology/website	1,500	1,500	1,322	178
Planning commission	2,500	2,500	2,350	150
Planning commission salaries	2,200	2,200	1,833	367
Montgomery County permit fee	165	165	-	165
Cable T.V. distribution	500	500	-	500
New Town computer and software	-	-	119	(119)
Total Financial Administration	<u>45,960</u>	<u>45,960</u>	<u>45,446</u>	<u>514</u>
Town Building				
Advertising/promotion/events	600	600	308	292
Custodian	2,500	2,500	2,451	49
Brookeville angel maintenance	2,000	2,000	-	2,000
Maintenance - Building	2,500	2,500	5,883	(3,383)
Exterior painting	3,700	3,700	-	3,700
Security and mechanical systems	4,300	4,300	814	3,486
Stucco repair	7,500	7,500	-	7,500
Parking	500	500	1,700	(1,200)
Equipment	-	-	90	(90)
Flooring	2,500	2,500	-	2,500
Utilities	7,500	7,500	8,167	(667)
Total Town Building	<u>33,600</u>	<u>33,600</u>	<u>19,413</u>	<u>14,187</u>
Total General Government	<u>\$ 79,560</u>	<u>\$ 79,560</u>	<u>\$ 64,859</u>	<u>\$ 14,701</u>

Continued

## TOWN OF BROOKEVILLE, MARYLAND

## Required Supplemental Information

## Budgetary Comparison Schedule

## General Fund

For Year Ended June 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Debt service				
Principal paid	\$ 24,000	\$ 24,000	\$ 19,566	\$ 4,434
Interest paid	-	-	3,755	(3,755)
Total Debt Service	<u>24,000</u>	<u>24,000</u>	<u>23,321</u>	<u>679</u>
Public Works				
Solid waste and recycling	15,950	15,950	12,785	3,165
Schoolhouse	1,000	1,000	283	717
Schoolhouse repairs	500	500	-	500
Street light maintenance	500	500	-	500
Greener Brookville Initiative	150	150	-	150
Grounds maintenance	1,200	1,200	1,561	(361)
Public area maintenance	3,000	3,000	4,170	(1,170)
Road and sidewalk maintenance	6,640	6,640	10,110	(3,470)
Snow removal	1,200	1,200	1,285	(85)
Street light	5,000	5,000	5,415	(415)
Trees	3,500	3,500	2,500	1,000
Total Public Works	<u>38,640</u>	<u>38,640</u>	<u>38,109</u>	<u>531</u>
Parks and Recreation				
Party	-	-	1,889	(1,889)
Total Parks and Recreation	<u>-</u>	<u>-</u>	<u>1,889</u>	<u>(1,889)</u>
Total Expenditures	<u>\$ 142,200</u>	<u>\$ 142,200</u>	<u>\$ 128,178</u>	<u>\$ 14,022</u>

The accompanying notes are an integral part of this schedule.



**TOWN OF BROOKEVILLE, MARYLAND**  
**Notes to Required Supplemental Information**  
**June 30, 2011**

**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 24, 2010, the Town Commissioners approved the original adopted budget reflected in the financial statements for fiscal year ending June 30, 2011.

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, 2011. In addition, there were no excesses of budgetary expenditures for the period.