

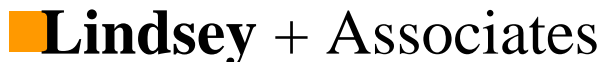
**TOWN OF GARRETT PARK, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2009**

TOWN OF GARRETT PARK

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Independent Auditor's Report

Honorable Mayor
Members of the Town Council
Town Manager
Town of Garrett Park, Maryland

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Garrett Park, Maryland, as of and for the year ended June 30, 2009, 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 Garrett Park's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the 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 and each major fund of the Town of Garrett Park, Maryland, as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis and the budgetary comparison information on pages 2 through 8 and 27, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 6, 2009

A handwritten signature in black ink that reads "Lindsey + Associates, LLC". The signature is written in a cursive, flowing style.

TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009

The Management's Discussion and Analysis (MD&A) offers readers of the Town's financial statements a narrative overview and analysis of the Town's financial activities for the fiscal year (FY) ended 30 June 2009. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements (which immediately follow this discussion). These financial statements follow the reporting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Readers interested in more information about these standards may contact the Garrett Park Town Office or log on to the GASB website at www.gasb.org.

Financial Highlights

- In FY 2009 the Town completed the initial roadwork called for in the Capital Improvement Program (CIP) developed in FY 2007 and begun in FY 2008. The CIP's program of road repair and rehabilitation began in April of 2008 and was completed by July of 2008, with a total of \$258,602 being spent.
- Work on the Cambria Park improvements & Keswick sidewalk project was also completed July of 2009. The total invested in this project was \$165,682, with Town expenditures being reduced by a Maryland Department of Natural Resources Program Open Space (POS) grant of \$36,000, bringing to cost to the Town down to \$129,682. A balance of approximately \$20,000 remains in the Town's POS account, which can be applied to reduce the cost of future projects that involve parks or playgrounds.
- The assets of the Town of Garrett Park exceeded its liabilities as of June 30, 2009 by \$3,054,824, an increase of \$23,859 over FY 2008. Net assets invested in capital assets (net of depreciation and related debt) account for 81.2% of this amount, with a value of \$2,481,206. The unrestricted net assets of \$569,035 may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction. (See Statement of Net Assets)
- As of June 30, 2009 the Town's governmental funds reported an ending fund balance of \$564,749, an increase of \$122,833 over FY 2008, which is available for spending at the government's discretion. The reason for the increase in fund balance is the reduced investment into capital assets during FY 2009. Given the current economic situation that municipalities face, the return to substantial capital investment has been deferred until the FY 2011/FY2012 budget cycles when the Town's future revenue sources are more reliably estimated and likely to be increasing.
- In March 2002 the Town issued \$800,000 of 2002 Series A Local Government Infrastructure Bonds through the Maryland Department of Housing and Community Development's annual local infrastructure bond program. The proceeds of these bonds were used to pay for the renovation of Penn Place, street improvements, and the new streetlights. As of June 30, 2009 the principal balance outstanding was \$591,200.

**TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009**

- The Town received \$95,903 in operating grants and contributions in FY 2009. (Note: The \$36,000 POS grant was received in August of 2009, so will be shown in the FY 2010 Financial Statements)
- One of the two negative impacts on the Town's finances going forward noted in the FY 2008 Financial Statements has been resolved. The zoning lawsuit *Martin v. Garrett Park* was settled at a total cost to the Town of \$180,747 in legal fees, \$148,449 of which were expended in FY 2009.
- The impact of current economic downturn continues and for local governments has become increasingly burdensome, and will probably continue to do so through at least FY 2011. An example of this is the reduction by 90% of Highway User Funds that the Town will receive in FY 2010. As noted in the FY 2008 Financial Statements, the Town took prudent precautions, putting a total of \$236,500 into reserves and contingencies in the FY 2009 budget. The FY 2010 budget continues this policy, holding \$236,210 in reserves and contingencies

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities are government-wide statements that provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements report the Town's operation in more detail than the government-wide statements by providing information about the Town's most significant funds and individual parts.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Town's finances is, "Is the Town as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the Town's net assets. You can think of the Town's *net* assets (the difference between assets and liabilities) as one way to measure the Town's financial health or position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's roads to assess the overall health of the Town.

**TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009**

In the Statement of Net Assets and the Statement of Activities, as of June 30, 2009, the Town had only Governmental Activities. The Town's basic services are reported here, including general administration, public works, and parks. Taxes, fees, and state and federal grants finance most of these activities.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the Town as a whole. The Town's funds are governmental in nature. There are no proprietary funds. The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation to the right of the fund financial statements.

The Town as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Building Permit Fees, Federal Grants, State Grants,
Public Works	Municipal Refuse Collection Fees, Highway User Revenues, County Overlapping Grants,
Recreation & Culture	State Grants

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted to a specific purpose.

**TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Governmental-Wide Financial Information

The following is selected information as of June 30, 2009 and for the previous year ended provided for comparison purposes.

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Current assets	631,364	548,073
Capital assets	3,072,406	3,213,249
Total assets	<u>3,703,770</u>	<u>3,761,322</u>
Current liabilities	45,047	139,157
Long-term liabilities	603,899	591,200
Total liabilities	<u>648,946</u>	<u>730,357</u>
Net assets		
Invested in capital assets, net of related debt	2,481,206	2,589,049
Restricted	4,583	4,583
Unrestricted	569,035	437,333
Total net assets	<u>3,054,824</u>	<u>3,030,965</u>
Total liabilities and net assets	<u>3,703,770</u>	<u>3,761,322</u>
Program revenues		
Charges for services	276,357	263,488
Operating grants and contributions	95,903	108,511
General revenues		
Income taxes	314,978	301,137
Property taxes	453,909	408,263
Interest, investment earnings	7,359	26,849
Miscellaneous	16,884	20,235
Total general revenues	<u>793,130</u>	<u>756,484</u>
Transfers	-	-
Total revenues and transfers	1,165,390	1,128,483
Expenses		
General government	668,149	551,495
Public works	410,370	440,436
Parks	35,153	35,337
Interest expense	27,859	29,002
Total expenses and transfers	<u>1,141,531</u>	<u>1,056,270</u>
Change in net assets	23,859	72,213
Net assets, beginning of year	3,030,965	2,958,752
Net assets, end of year	3,054,824	3,030,965

**TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Business-type Activities

The Town currently has no business-type activities.

The Town's Funds

The following schedule presents a summary of general fund revenues and expenses for the fiscal year ended June 30, 2009 and percentage of increases and decreases in relation to the prior year. See the following two pages for charts.

	FY 2009 Amount	Percent of Total	Increase (Decrease) From FY08
Revenues			
Income taxes	\$ 259,110	23%	\$ (42,027)
Property taxes	453,909	40%	45,646
Licenses & Permits	11,375	1%	(2,317)
Intergovernmental	95,903	9%	(12,607)
Rental Income	120,190	11%	5,936
Investment Income	7,359	1%	(19,490)
Miscellaneous	161,676	15%	5,898
Total Revenues	\$ 1,109,522	100%	\$ (18,961)
Expenditures			
General government	\$ 498,304	51%	\$ 92,586
Public works	320,137	32%	(64,103)
Parks	27,331	3%	(4,329)
Capital outlays	80,058	8%	(394,040)
Debt service	60,859	6%	157
Total Expenditures	\$ 986,689	100%	\$ (369,729)

Total Revenue from FY 2009 taxes was \$713,019, slightly greater than the \$709,400 received in FY 2009. The 13% decrease in income taxes of \$42,027 over FY 2008, (an approximately 26% decrease from FY 2007), was offset by the 11% increase in property taxes over FY 2008, something that will not continue in FY 2010 due to the decline in assessed value of property in Town. Highway User funds from the state declined significantly in FY 2009 to \$45,729, and are projected to collapse to \$4,500 in FY 2010. Happily, revenue sharing from the county was level funded in FY 2009 compared to the previous year, and will remain level funded in FY 2010.

**TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009**

General Fund Budgetary Highlights

The initial FY 2009 Budget was approved on May 12th, 2008, with an adjustment approved on October 13th, 2008, a revision approved on January 12th, 2009, and a final set of transfers on May 11th, 2009.

The Town of Garrett Park budgets are in a format that is best suited to clearly showing the policies of the Town adopted each year by the Town Council. Revenues and expenditures are assigned to accounts designed to accurately represent the activities of Town government. This budget format does not align well with the GASB format and the final year-end amounts in the Town Accounts must be redistributed into the GASB budget format for the annual financial report. This is why the presentation of the budget on page 27 of this report shows various surpluses and deficits in the listed expenditure accounts, whereas in the Town budget format there would be no such account over or under expenditure.

Capital Asset and Debt Administration

Capital Assets

There were no major investments in Capital Assets in FY 2009.

Debt

At year-end, the Town had \$591,200 in an outstanding note as compared to \$624,200 last year. This amount consists of a Local Government Infrastructure note for street reconstruction, paving improvements, new streetlights, and sidewalk extension and repaving of Kenilworth Avenue, Oxford Street and Weymouth Street in 2002-2004.

Economic Factors and Next Year's Budgets and Rates

- In anticipation of the effects of the growing economic crisis, the FY 2009 budget has placed \$236,210 into reserves and contingencies.
- The FY 2010 Capital Program remains reduced, with major repairs to the North Kenilworth Storm Drain as the only significant project anticipated. It is expected that a return to significant capital investments will occur in the FY 2011 – 2012 budget cycles with a continuation of the CIP roads rehabilitation project as well as major repairs at the Town Hall.
- No major federal or county grants are anticipated in fiscal year 2010. The Town will receive a \$36,000 Program Open Space Grant from the Maryland Department of Natural Resources for improvements to Cambria Park.

**TOWN OF GARRETT PARK, MARYLAND
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Administrator at 4600 Waverly Street (PO Box 84), Garrett Park, MD, 20896.

**TOWN OF GARRETT PARK
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 56,106	\$ 56,106
Cash and cash equivalents - restricted	16,210	16,210
Investments	474,209	474,209
Other assets	19,436	19,436
Amounts due from other governments	9,535	9,535
Accounts receivable - income tax	55,868	55,868
Total Current Assets	<u>631,364</u>	<u>631,364</u>
Noncurrent Assets		
Due from other funds	-	-
Net capital assets	3,072,406	3,072,406
Total Noncurrent Assets	<u>3,072,406</u>	<u>3,072,406</u>
TOTAL ASSETS	<u><u>\$ 3,703,770</u></u>	<u><u>\$ 3,703,770</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 10,747	\$ 10,747
Current portion of long-term debt	34,300	34,300
Total Current Liabilities	<u>45,047</u>	<u>45,047</u>
Noncurrent Liabilities		
Compensated absences	46,999	46,999
Loan payable - long-term	556,900	556,900
Total Noncurrent Liabilities	<u>603,899</u>	<u>603,899</u>
TOTAL LIABILITIES	<u>648,946</u>	<u>648,946</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,481,206	2,481,206
Restricted	4,583	4,583
Unrestricted	569,035	569,035
TOTAL NET ASSETS	<u>3,054,824</u>	<u>3,054,824</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,703,770</u></u>	<u><u>\$ 3,703,770</u></u>

The accompanying notes to these financial statements are an integral part of this statement.

**TOWN OF GARRETT PARK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary Government							
Governmental Activities:							
General government	\$ 668,149	\$ 27,859	\$ 132,659	\$ 50,174	\$ -	\$ (513,175)	\$ (513,175)
Public works	410,370	-	143,698	45,729	-	(220,943)	(220,943)
Parks	35,153	-	-	-	-	(35,153)	(35,153)
Interest expense	27,859	(27,859)	-	-	-	-	-
Total Governmental Activities	<u>1,141,531</u>	<u>-</u>	<u>276,357</u>	<u>95,903</u>	<u>-</u>	<u>(769,271)</u>	<u>(769,271)</u>
Total Primary Government	<u>\$ 1,141,531</u>	<u>\$ -</u>	<u>\$ 276,357</u>	<u>\$ 95,903</u>	<u>\$ -</u>	<u>\$ (769,271)</u>	<u>\$ (769,271)</u>
				General revenues:			
				Taxes			
				Income taxes		314,978	314,978
				Property taxes		453,909	453,909
				Interest and investment earnings		7,359	7,359
				Miscellaneous		16,884	16,884
				Total General Revenues		<u>793,130</u>	<u>793,130</u>
				Transfers in (out)		-	-
				Change in Net Assets		23,859	23,859
				Net Assets, beginning of year		<u>3,030,965</u>	<u>3,030,965</u>
				Net Assets, end of year		<u>\$ 3,054,824</u>	<u>\$ 3,054,824</u>

The accompanying notes to these financial statements are an integral part of this statement.

**TOWN OF GARRETT PARK
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents - unrestricted	\$ 56,106	\$ 56,106
Cash and cash equivalents - restricted	16,210	16,210
Investments	474,209	474,209
Other assets	19,436	19,436
Other accounts receivable, net of allowances	9,535	9,535
Accounts receivable - income tax	55,868	55,868
TOTAL ASSETS	\$ 631,364	\$ 631,364
LIABILITIES		
Accounts payable and accrued expenses	\$ 10,747	\$ 10,747
Deferred revenue	55,868	55,868
TOTAL LIABILITIES	66,615	66,615
FUND BALANCES		
Reserved	-	-
Unreserved	564,749	564,749
TOTAL FUND BALANCES	564,749	564,749
TOTAL LIABILITIES AND FUND BALANCES	\$ 631,364	\$ 631,364

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2009**

<i>Total Governmental Fund Balances</i>	\$	564,749
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,072,406
Deferred income tax revenues are recorded on the modified accrual basis in the fund financial statements.		55,868
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(638,199)
<i>Net Assets of Governmental Activities</i>	\$	3,054,824

The accompanying notes to these financial statements are an integral part of this statement.

**TOWN OF GARRETT PARK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 713,019	\$ 713,019
Licenses and permits	11,375	11,375
Intergovernmental	95,903	95,903
Rental income	120,190	120,190
Investment income		
Net increase in fair value of investments	-	-
Interest Income	7,359	7,359
Miscellaneous	161,676	161,676
Total Revenues	1,109,522	1,109,522
EXPENDITURES		
Current Operations		
General government	498,304	498,304
Public works	320,137	320,137
Parks	27,331	27,331
Capital outlays	80,058	80,058
Debt Service		
Principal	33,000	33,000
Interest	27,859	27,859
Total Expenditures	986,689	986,689
Excess of revenues over (under) expenditures and other financing uses	122,833	122,833
Total other financing sources (uses)	-	-
Excess of revenue and other financing sources over (under) expenditures and other financing uses	122,833	122,833
Fund balance, beginning of year	441,916	441,916
Fund balance, end of year	\$ 564,749	\$ 564,749

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 122,833
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	33,000
Increases in deferred state income taxes do not provide current financial resources and are not reported as a revenue in the funds.	55,868
Differences between accrual and modified accrual in accounting for compensated absences.	(46,999)
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 outlays in the current period.	(140,843)
<i>Change in Net Assets of Governmental Activities</i>	\$ 23,859

The accompanying notes to these financial statements are an integral part of this statement.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Garrett Park, Maryland was incorporated in 1898, pursuant to authority of Article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The Town operates under a Council-Mayor form of government and provides the following services as authorized by its charter: highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town of Garrett Park conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In evaluating how to define the Town of Garrett Park, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town's funds are grouped into one broad fund category.

Governmental funds include the General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. At June 30, 2009, the Town had no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Town, if any, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment, if any, is self-financing or draws from the general revenues of the Town. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements

Fund financial statements report detailed information about the Town. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Funds

Town activities pertaining to general government, public works, capital projects, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding investments in the State of Maryland Local Government Investment Pool and the Montgomery County Pooled Investment Program.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments

In accordance with GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments,” investments held at June 30, 2009 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2009 consist primarily of property tax, highway user revenues, the Cove charitable trust, and accrued interest on investments. Taxes, accounts, special assessments, utility charges and accrued interest are deemed collectible in full, and the allowance for doubtful accounts at June 30, 2009 is \$0.

Inventory of Supplies

Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds, if any, when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Town as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 20 years.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Restricted Reserves

The Town uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period and is capitalized as part of the cost of the asset.

Compensated Absences

The Town accrues unused vacation pay in the period the fund liability is incurred. Full-time employees are granted vacation leave based on the number of continuous service years. Upon termination, the employees will be paid the number of days accrued. Vested annual leave is expensed in the appropriate fund. The liability of these compensated absences is recorded as a long-term liability in the government-wide statements. As of June 30, 2009 the balance of compensated absences was \$46,999.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Deferred Income Tax Revenue

At June 30, 2009, the Town was advised by the State of Maryland that \$55,868 of the Local Tax Reserve Fund was allocable to the Town. In accordance with the provision of GASB No. 33, the Town recorded receivable and deferred income tax revenue in the amount of \$55,868 in the fund financial statements. This amount has been reflected as income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

Equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first and then unrestricted resources as needed

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for all Town funds. The Town Council may subsequently amend the budget and the budget was amended during fiscal year 2009. For day-to-day management control, expenditures may not exceed budget at the major account level. The Town prepares an annual operating budget on a basis not consistent with generally accepted accounting principles (GAAP). Refer to Footnote 12 for a reconciliation with the GAAP basis.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool and the Montgomery County Pooled Investment Program (MCPIP).

The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department or agent in the name of the Town.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent in the name of the Town.

At year-end, the carrying amount of the Town's deposits was \$55,806 and the bank balance totaled \$62,550. In addition, \$16,210 was held in a First Dollar reserve account with Health Plans Dental Plus. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). At year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized or insured by FDIC.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town has no policy regarding credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's policy provides that to the extent practicable, investments are matched with anticipated cash flows.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town has no policy regarding concentration of credit risk.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

Generally, the Town's investing activities are managed by the Town Manager. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Town funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks) corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Investments

The Town has invested at June 30, 2009, \$474,209 in the Montgomery County Pooled Investment Program (MCPIP), which is administered by Montgomery County. The pool is under the administrative control of the Montgomery County Government. The Town's investments are shown by type, carrying amount, fair value, cost and level of risk assumed in holding the various accounts. Investments are carried at cost which approximates market. The fair value of MCPIP investments is determined daily. The Town's fair value position in the Pool is the same as the value of pool share.

As of June 30, 2009, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>	<u>Weighted Average Days to Maturity</u>
MCPIP	\$ 474,209	\$ 474,209	N/A	12
Total Investments	<u>\$ 474,209</u>			

Notes: 1- Ratings are provided where applicable to indicate associated **Credit Risk**. N/A indicates not applicable.

2- **Interest Rate Risk** is estimated using either duration or weighted average days to maturity depending on the respective policy.

NOTE 4 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue, a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2009 is \$.19 per \$100 of assessed value for real property, and \$1.00 per \$100 of assessed value for personal property.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 111,378	\$ -	\$ -	\$ 111,378
Construction in progress	-	-	-	-
Subtotal	111,378	-	-	111,378
Depreciable capital assets:				
Infrastructure	895,960	61,407	-	957,367
Playground and parking lot	179,096	18,651	-	197,747
Buildings and improvements	2,904,664	-	-	2,904,664
Office equipment	33,139	-	-	33,139
Furniture and fixtures	252,735	-	-	252,735
Vehicles	132,711	-	-	132,711
Subtotal	4,398,305	80,058	-	4,478,363
Total capital assets	4,509,683	80,058	-	4,589,741
Accumulated depreciation:				
Infrastructure	219,879	47,188	-	267,067
Playground and parking lot	36,281	7,822	-	44,103
Buildings and improvements	711,670	146,261	-	857,931
Office equipment	22,096	2,332	-	24,428
Furniture and fixtures	251,673	125	-	251,798
Vehicles	54,835	17,173	-	72,008
Subtotal, accumulated depreciation	1,296,434	220,901	-	1,517,335
Net capital assets	\$ 3,213,249	\$ (140,843)	\$ -	\$ 3,072,406

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 147,971
Public works	65,108
Parks	7,822
Total government activities depreciation expense	<u>\$ 220,901</u>

The Town has no material construction commitments as of June 30, 2009.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 – DEFERRED COMPENSATION PLAN

The Town established in accordance with Town Council approval a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees can defer any portion of their includable salaries over the plan year. The Town contributes 7% of eligible employees' salaries to this plan. During fiscal year 2009 the Town contributed \$14,595.

Effective January 1, 1998 all amounts of compensation deferred under the plan, and all related income are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, in accordance with Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for the Internal Revenue Code 457 Deferred Compensation Plan," the investments designated for compensation benefits are not reflected in the Town's financial statements.

The Plan Administrator, ICMA, is the trustee.

NOTE 7 – LONG-TERM DEBT

Governmental Activities

On May 1, 2002, the Maryland Community Development Administration issued general obligation bonds with a face value of \$800,000, for the purpose of financing a portion of the renovation of Penn Place, as well as other infrastructure improvements. Principal payments are due each year on May 1st through May 1, 2022. Interest payments are paid semi-annually on May 1st and November 1st for the term of the bonds. The interest rate varies between 3% and 4.8%. The interest rate at June 30, 2009 was 3.70%. The principal balance as of June 30, 2009 is \$591,200.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 – LONG-TERM DEBT - continued

The changes in long-term debt as of June 30, 2009 are summarized as follows:

Lender	Beginning Balance		Ending Balance		Amount Due Within 1 Year
	July 1, 2008	Decreases	Increases	June 30, 2009	
Infrastructure bonds	\$ 624,200	\$ 33,000	\$ -	\$ 591,200	\$ 34,300
Compensated absences	41,763	-	5,236	46,999	-
	<u>\$ 665,963</u>	<u>\$ 33,000</u>	<u>\$ 5,236</u>	<u>\$ 638,199</u>	<u>\$ 34,300</u>

Interest costs charged to expense during the year ended June 30, 2009 was \$27,859.

The principal and interest requirements to maturity of the long-term debt of all funds are as follows:

Year(s) Ended June 30	Infrastructure Bond		
	Principal	Interest	Total
2010	\$ 34,300	\$ 26,362	\$ 60,662
2011	35,700	25,041	60,741
2012	37,000	23,631	60,631
2013	39,100	22,151	61,251
2014	40,400	20,528	60,928
2015-2019	233,700	74,231	307,931
2020-2024	171,000	16,677	187,677
	<u>\$ 591,200</u>	<u>\$ 208,621</u>	<u>\$ 799,821</u>

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Town derives most of its revenues, except grants, from its citizens. The Town provides various services to its residents. The Town is located in Montgomery County, Maryland.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 9 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters.

The Town has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the Town's general, automobile, employee, health, police and public officials' legal liability insurance coverage. The town's commercial insurance company provides property coverage.

This is a total risk and cost sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

Premiums are charged to the appropriate Town's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust.

There have been no assessments during the year ended June 30, 2009 and the amount of settlements has not exceeded coverage for each of the past three years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Grants

The Town receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a result of disallowed expenditures.

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENT

In June, 2004, the Governmental Accounting Standards Board issued Statement No. 45, "Accounting and Financial Reporting for Post Employment Benefit Plans Other Than Pensions" (GASB 45). The Town has not yet determined the impact of adopting GASB 45 on its financial statement presentation or disclosures. The Town is required to adopt GASB 45 for the fiscal year ending June 30, 2010.

TOWN OF GARRETT PARK, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 12 – FUND BALANCE REPORTING

GASB No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” is effective for the year ended June 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Town has not determined the financial statement effect of GASB No. 54.

NOTE 13 – RECONCILIATION OF NON-GAAP BUDGET TO GAAP BUDGET

The financial statements and notes conform to GAAP. The budget is prepared on a basis not consistent with GAAP because the prior years’ surplus is included in budgeted revenues and expenditures. The reconciliation between the non-GAAP budget and GAAP follows:

Budgeted excess of revenue over (under) expenditures - Non-GAAP basis	\$ (58,574)
Plus: transfer to reserves	<u>56,155</u>
Budgeted excess of revenue over (under) expenditures - GAAP basis	<u><u>\$ (2,419)</u></u>

TOWN OF GARRETT PARK, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes	\$ 635,800	\$ 635,800	\$ 713,019	\$ 77,219
Licenses and permits	14,500	14,175	11,375	(2,800)
Rents received	112,400	100,511	120,190	19,679
Intergovernmental	126,850	151,650	95,903	(55,747)
Interest Income	8,700	8,334	7,359	(975)
Miscellaneous	162,600	155,031	161,676	6,645
Prior year fund balance	-	-	-	-
Total Revenues	<u>\$ 1,060,850</u>	<u>\$ 1,065,501</u>	<u>\$ 1,109,522</u>	<u>\$ 44,021</u>
Expenditures				
General government	\$ 451,350	\$ 616,150	\$ 498,304	\$ 117,846
Public works	322,425	296,610	320,137	(23,527)
Parks	27,725	30,475	27,331	3,144
Other	30,000	19,960	-	19,960
Capital outlays	100,000	43,850	80,058	(36,208)
Debt service				
Principal	33,000	33,000	33,000	-
Interest	27,600	27,875	27,859	16
Transfers	168,750	56,155	-	56,155
Total Expenditures	<u>\$ 1,160,850</u>	<u>\$ 1,124,075</u>	<u>\$ 986,689</u>	<u>\$ 137,386</u>