



CHEVY CHASE VILLAGE
Chevy Chase, Maryland

FINANCIAL STATEMENTS
June 30, 2004

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Independent Auditor's Report

Board of Managers
Chevy Chase Village
Chevy Chase, Maryland

We have audited the accompanying basic financial statements of the governmental activities of Chevy Chase Village as of June 30, 2004, and for the year then ended, which comprise Chevy Chase Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chevy Chase Village's management. Our responsibility is to express an opinion 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Chevy Chase Village at June 30, 2004, and the results of operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Summary of Accounting Policies, Chevy Chase Village has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for the year ended June 30, 2004.

The management's discussion and analysis and budgetary comparison schedule are not a required part of the basic financial statements but is 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.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Chevy Chase Village's basic financial statements. The accompanying financial information other than the budgetary comparison, listed as schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Chevy Chase Village. The information in these schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Clifton Henderson LLP

Baltimore, Maryland
July 30, 2004

**CHEVY CHASE VILLAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

As management of Chevy Chase Village, (the "Village"), we offer readers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2004. New audit reporting standards (GASB 34) take effect this year and consequently, prior year comparisons are not readily available. Such comparisons will be made in subsequent years.

Financial Summary

The statements this year include June 30, 2004 figures on both the new (GASB 34) and old basis. The comparative data are shown below (in thousands of dollars).

	<u>GASB 34</u>	<u>Pre-GASB 34</u>	
Capital assets	\$ 3,877	\$ 3,877	Investments in fixed assets
Less depreciation	(1,579)		
Unrestricted net assets	<u>2,380</u>	1,936	Unreserved fund balance
Total	<u>\$ 4,678</u>		

The \$2,380 thousand now reported as "Unrestricted Net Assets" is \$444 thousand above the amount reported as the year-end "Unreserved Fund Balance", as illustrated in the above table and a \$661 thousand over the unreserved fund balance as of June 30, 2003.

Financial operations during 2004 yielded results substantially more favorable than had been anticipated at the time of adoption of the FY 2004 budget. A comparison of budget vs. actual, based upon pre-GASB 34 modified accrual accounting and using consistent year-to-year recording procedures, is shown in detail on page 25 and in summary below.

**Schedule of Revenue and Expenses – Budget and Actual
(000's)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
Revenue			
Taxes	\$ 2,252	\$ 2,438	\$ 186
Other	<u>557</u>	<u>612</u>	<u>55</u>
Total	2,809	3,050	241
Expenditures	<u>3,211</u>	<u>2,833</u>	<u>378</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (402)</u>	<u>\$ 217</u>	<u>\$ 619</u>

**CHEVY CHASE VILLAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

Overview of the Financial Statements

GASB 34 requires governments to introduce full accrual accounting, including depreciation, and to provide a new statement to report the fully accrued results of "Governmental Activities". These full accrual statements appear on pages 9 and 10 of this report. Reconciliations of the new GASB 34 "governmental activities" statements to the old "modified accrual" statements are provided on pages 12 and 14. The \$64 thousand difference between the change in "net assets" during 2004 as measured on the full accrual basis (at \$281 thousand) and the change in "fund balance" during 2004 (at \$217 thousand) is detailed on page 14.

The auditor's Summary of Significant Accounting Policies and Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. This summary and notes to the financial statements are part of the basic financial statements and can be found on pages 15 – 23 of this report.

Village Operations

The Statement of Activities on page 10, presents information showing how the Village's net assets changed during the most recent fiscal year as measured on the full accrual, GASB 34 basis. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). These statements also record depreciation, but not outlays for capitalized items.

In addition to its capitalized plant and equipment, Village assets (as accounted per GASB 34) included long- and short-term investments and numerous receivables. There were also current and non-current liabilities. The residual amount, calculated to be \$2,380 thousand is termed "Net Unrestricted Assets". A reconciliation of this \$2,380 thousand figure to the \$1,936 thousand "Unreserved Fund Balance" which pre-GASB 34 accounting identified as of the same date is provided on page 12. The principal element in this reconciliation is inclusion in the GASB 34 accounts of \$563 thousand receivable calculated by the state as the Village share of income tax receivables due but not yet collected by the state.

The following table indicates the changes in net assets as accounted pursuant to GASB 34:

**CHEVY CHASE VILLAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

Change in Net Assets

Revenues

Program revenues:	
Charges for services	\$ 345,356
Operating grants and contributions	190,597
Capital grants and contributions	50,307
General revenues:	
Property, income, highway user and taxes levied for general purposes	2,422,497
Miscellaneous	36,710
Unrestricted investment earnings	<u>18,112</u>
Total revenues	<u>3,063,579</u>

Expenses

General government	484,144
Public safety	1,137,381
Public works	664,777
Parks and recreation	366,802
Village building	<u>129,430</u>
Total expenses	<u>2,782,534</u>

Increase in net assets	281,045
Net assets, beginning of year	<u>4,396,958</u>
Net assets, end of year	<u>\$ 4,678,003</u>

Village Capital Assets

The Statement of Net Assets presents information on all of the Village'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 Village is improving or deteriorating.

The Village Net Assets, measured in accordance with GASB 34, totaled \$4.7 million as of June 30, 2004 and included \$2.3 million in capital assets net of depreciation plus the \$2.4 million in unrestricted net assets reference in the "Financial Summary" segment of this report. The capital assets reflected in the accounts include the depreciated value of land, buildings and building improvements, police vehicles and equipment, public works vehicles and office furniture and equipment for which funds have been specifically expended. Other assets such as streets, sidewalks, other rights-of way, signage and most parkland and fixtures for which no cost basis is available are not capitalized.

**CHEVY CHASE VILLAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

**Capital Assets
(Net of Depreciation)**

Land	\$ 313,891
Buildings and improvements	1,651,136
Police vehicles and equipment	189,871
Public works vehicles and equipment	87,849
Furniture and equipment	<u>55,088</u>
Total	<u>\$ 2,297,835</u>

Major capital asset events during the year ending June 30, 2004 included the following:

The Village Public Works department improved its recyclable brush and yard waste collection program with the purchase of a rear-loading compactor truck. The truck cost \$66,976. The Public Safety department purchased a new police cruiser for \$21,114 as part of a scheduled vehicle replacement program.

The Village Public Safety department continued to enhance its computer-based information systems through the purchase of fixed computer hardware, mobile data terminals (MDTs) and software. Total cost for these purchases was \$49,314. \$23,646 of this amount was offset by Federal Block Grant funding.

Additional information regarding capital assets can be found in Note 5 on page 21 of this report. Non-capital assets that would be available to the Village after all receivables and payables were settled are termed "unrestricted net assets" in the new GASB 34 statements and totaled \$2,380 thousand as of June 30, 2004.

Fund Accounting and Budgets

The Village's General (also termed Governmental) Fund groups related accounts to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The basic Governmental Fund financial statements can be found on pages 11 and 13.

The Village adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with budget. This schedule and departmental budget to actual comparisons are found on pages 25 to 30.

**CHEVY CHASE VILLAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

Fund Accounting and Budgets (Continued)

The General Fund is the operating fund for Chevy Chase Village. At June 30, 2004, the Village's General Fund reported an ending fund balance of \$1,936,369. All of the fund balance is *undesignated fund balance*, which is available for spending at the government's discretion. As a measure of the General Fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. Unreserved fund balance represents 68.4% of total General Fund expenditures.

The fund balance of Chevy Chase Village's General Fund increased by \$217,201 during the current fiscal year versus an anticipated need to draw upon that fund to sustain 2004 operations in the amount of \$403 thousand. Key factors in this increase are as follows:

- Tax revenues were \$185,973 greater than projected.
- Other revenue sources were \$55,396 greater than expected.
- Appropriated fund balance of \$492,815 was not drawn upon as a financing source.
- Total expenditures were \$468,650 less than budgeted.
- Snow and Storm Costs exceeded budget by \$4,369 after FEMA reimbursements totaling \$20,371.
- The Village paid \$30,707 to the Local Government Insurance Trust to satisfy a Health Pool Assessment for the fiscal year 2003. Staff health expenses remained below budget even with this additional expenditure due to a change in health insurance provider.

Economic Factors and Status of Village Funds

The Village enjoys a strong financial position but is dependent on state income tax collections and real property assessments. These factors, which are beyond its direct control, are quite variable.

While the State of Maryland is realizing significant growth in real property assessments, this trend will not have a major impact on the Village's property tax revenues until fiscal year 2006. The delay of the impact is due to the triennial assessment system, which assesses the Village every third year, along with a cap of 10 percent on residential properties. For fiscal year 2005, the growth in both real and personal property taxes is budgeted at 7.5% over fiscal year 2004 budgeted property taxes.

Income tax revenues for fiscal year 2005 are budgeted at 5.2% over those budgeted for fiscal year 2004. Income tax revenue has proven highly variable, changing by as much as 25% year-to-year.

During fiscal year 2004, the State took a portion of the local share of highway user revenues and transferred them to the State's General Fund. However, the State passed a bill in the 2004 legislative session that included an increase in the vehicle registration fees which will in turn mean an increase in the local share. The fiscal year 2005 revenues, which do not include the increase in vehicle registration fees, are budgeted at 2.2% over those budgeted for fiscal year 2004.

**CHEVY CHASE VILLAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

Economic Factors and Status of Village Funds (Continued)

For 2005, the Village has designated \$232,039 of the fund balance to cover an anticipated gap between revenue and total authorized 2005 expenses. \$90,000 of this amount is for projects that had been authorized but not completed in 2004.

Requests for Information

This financial report is designed to provide a general overview of the Chevy Chase Village's finances for all those with an interest in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Village Manager, Chevy Chase Village, 5906 Connecticut Avenue, Chevy Chase, Maryland 20815 or send an e-mail to ccv@montgomerycountymd.gov.

CHEVY CHASE VILLAGE
STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 479,105
Investments	1,501,368
Due from other governments	607,680
Other receivables	27,381
Capital assets, net	<u>2,297,835</u>
Total assets	<u>4,913,369</u>
LIABILITIES	
Accounts payable	91,757
Accrued salaries	12,975
Damage deposits	10,080
Miscellaneous payables	395
Deferred income	594
Non-current liabilities:	
Due within one year	37,742
Due in more than one year	<u>81,823</u>
Total liabilities	<u>235,366</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,297,835
Unrestricted	<u>2,380,168</u>
TOTAL NET ASSETS	<u><u>\$ 4,678,003</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

**CHEVY CHASE VILLAGE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Contributions	Governmental Activities	
Governmental activities:					
General government	\$ 484,144	\$ -	\$ -	\$ (465,501)	
Public safety	1,137,381	247,990	90,955	46,702	(751,734)
Public works	664,777	1,590	88,998	-	(574,189)
Parks and recreation	366,802	-	10,644	-	(356,158)
Village building	129,430	77,133	-	3,605	(48,692)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,782,534	\$ 345,356	\$ 190,597	\$ 50,307	(2,196,274)
General revenues:					
Taxes:					
Property, levied for general purposes				864,252	
Income taxes				1,498,513	
Shared taxes				59,732	
Miscellaneous				36,710	
Unrestricted investment earnings				18,112	
TOTAL GENERAL REVENUES AND SPECIAL ITEMS				2,477,319	
CHANGE IN NET ASSETS				281,045	
NET ASSETS - BEGINNING OF YEAR				4,396,958	
NET ASSETS - END OF YEAR				\$ 4,678,003	

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

**CHEVY CHASE VILLAGE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 479,105
Investments	1,501,368
Due from other governments	607,680
Other receivables	<u>27,381</u>
TOTAL ASSETS	<u><u>\$ 2,615,534</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 91,757
Accrued expenses	12,975
Damage deposits	10,080
Miscellaneous payables	395
Deferred income tax revenue	<u>563,958</u>
Total liabilities	<u>679,165</u>
FUND BALANCE	
Unreserved:	
Undesignated	<u>1,936,369</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,615,534</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

CHEVY CHASE VILLAGE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balance - governmental funds (page 11)	\$ 1,936,369
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$3,876,541 and the accumulated depreciation is \$1,578,707.	2,297,835
Deferred revenues are recorded on the modified accrual basis.	563,364
Non-current liabilities are not reported as liabilities in the governmental funds	<u>(119,565)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (page 9)	<u><u>\$ 4,678,003</u></u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

**CHEVY CHASE VILLAGE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2004**

	<u>General Fund</u>
REVENUES	
Taxes - income and property	\$ 2,349,149
Taxes - state and county shared revenues	148,730
Fees, licenses and permits	30,024
Fines and forfeitures	9,259
Investment earnings	18,112
Federal and state police grants	137,657
Contracted police services	247,990
Rent	77,133
Miscellaneous	<u>31,909</u>
Total revenues	<u>3,049,963</u>
EXPENDITURES	
General government	467,923
Public safety	1,134,714
Public works	760,957
Parks and recreation	362,927
Village building	<u>106,241</u>
Total expenditures	<u>2,832,762</u>
EXCESS OF REVENUES OVER EXPENDITURES	217,201
FUND BALANCE - BEGINNING OF YEAR	<u>1,719,168</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,936,369</u></u>

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements.

**CHEVY CHASE VILLAGE
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
June 30, 2004**

Total net change in fund balances - governmental funds (page 13)	\$ 217,201
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, instead of expense, the cost of capital outlays are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$246,278) exceeds depreciation expense (\$183,335) in the period.	
	62,943
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	
	13,616
Expenses for compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
	<u>(12,715)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 10)	<u><u>\$ 281,045</u></u>

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

CHEVY CHASE VILLAGE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004

The accounting policies of Chevy Chase Village conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. A summary of significant accounting policies followed by Chevy Chase Village are presented below.

REPORTING ENTITY

Chevy Chase Village (the Village) was established as a special taxing area in 1914 and incorporated in 1954. Since inception, the Village has operated under the Council-Manager form of government. Services provided include general government, public safety, public works, parks and recreation and the Village building.

The Town has no component units as defined by generally accepted accounting principles.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Changes in Net Assets report information on all of the non-fiduciary activities of the Village. Governmental activities are those which are supported by taxes and intergovernmental revenues, whereas business-type activities are those supported through customer service charges. The Village does not have any business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges for services and grants and contributions restricted to the capital or operational requirements of specific programs or functions. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounting and financial reporting is determined by its measurement focus. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized when earned and grants are recognized when all eligibility requirements are met.

Governmental fund statements are presented using the flow of economic resources measurements focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). Measurable means the amount of the transaction that can be determined and available means collected within 60 days of the year-end. Expenditures are recorded when the related liability is incurred as in the accrual basis of accounting. However, principal and interest on long-term debt and expenditures for compensated absences are recorded when the payments are due.

CHEVY CHASE VILLAGE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Village, franchise taxes, revenues from other agencies, interest revenue and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Village and are recognized as revenue at that time.

The Village has one major governmental fund, the general fund. It is used to account for all activities of the government. The general fund accounts for the normal recurring activities of the Village such as police, public works, parks and recreation, general government, village building, etc. These activities are financed primarily by property taxes, other taxes, service charges and grants from other governmental units.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Effective July 1, 2003, the Village has adopted the provisions of the following new accounting standards:

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus*; and GASB Statement No. 39, *Certain Financial Statement Note Disclosures*. These statements affect the manner in which the Village records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare the private-sector financial reports.

GASB 34, as amended by GASB 37, established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports easier to understand and more useful to the people who use government financial information to make decisions. Significant impacts of GASB 34 on the Village’s financial statement are:

- Inclusion of government-wide financial statements
- Inclusion of a narrative introduction and analytical overview of the government’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to analysis the private section provides in its annual reports.

CHEVY CHASE VILLAGE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash equivalents and investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months. Cash deposits of the Village are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping of these deposits.

Excess funds are also permitted to be invested either in bonds or other obligations for the payment of principal and interest of which the full faith and credit of the United States of America are pledged, obligations of Federal government agencies issued pursuant to acts of Congress, or in the Local Government Investment Pool created by the State of Maryland.

Capital assets

Capital assets, which include property improvements, furniture, equipment and vehicles, are reported in the governmental activities fund in the government-wide financial statements. The Village defines capital assets as those which have an acquisition cost or donated value of at least \$1,000 and an estimated useful life of five years or more. Such assets are valued at historical or estimated historical cost if actual is not available. Donated assets are stated at their donated value at the date of donation. The cost of normal maintenance and repairs that do not add value or extend asset lives are not capitalized.

Expenditures for major assets and improvements are capitalized as the assets are acquired or constructed. Exhaustible capital assets are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows

<u>Category</u>	<u>Years</u>
Buildings and improvements	40
Vehicles and equipment	3-8
Office furniture and equipment	8

Compensated absences

Village policy allows employees to accumulate unused vacation that is payable to the employee at the employees' retirement or termination. Policy also permits employees to accumulate sick leave for future use or for payment upon retirement at the rate of one hour for every three hours of accumulated sick leave.

CHEVY CHASE VILLAGE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2004

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (CONTINUED)

Compensated absences (Continued)

Vested or accumulated vacation or sick leave is accrued when earned by the employee and a liability is recorded in the government-wide financial statements. At June 30, 2004, the liability to the Village employees for accrued annual and sick leave was \$59,051 and \$60,514, respectively, based on the wage rates in effect during the fiscal year. Accumulated leave is expected to be liquidated with expendable available financial resources is reported as an expenditure and included in the sick and vacation liability of the general fund. Amounts estimated to be non-current (not to be expended within the next fiscal year) are not recorded in the general fund.

Fund equity

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital (net of related debt), restricted and unrestricted.

- *Invested in capital assets, net of related debt* - This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net assets* - This category presents external restrictions imposed by creditors, grantors or laws and regulations of other governments. There are no restricted net assets as of June 30, 2004.
- *Unrestricted net assets* - This category presents the net assets of the Village not included elsewhere.

This information is an integral part of the
accompanying financial statements.

CHEVY CHASE VILLAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1 – CASH AND INVESTMENTS

At June 30, 2004, the carrying amount of the Village’s cash balance was \$478,905 and the bank balance totaled \$714,511. The Federal Deposit Insurance Corporation covered \$100,000 of the deposit and \$614,511 was fully collateralized with securities held by the pledging financial institution. In addition, a petty cash balance of \$200 is maintained.

The Village’s investment policy authorized the Village to deposit funds only in authorized, qualified public depositories. Cash and investments must be placed only in U.S. Treasury obligations, including its agencies, U.S. Government guaranteed obligations, FDIC insured certificates of deposit, commercial banks, or money market accounts, the Maryland Local Government Investment Pool, or any obligation of the State of Maryland, its counties and municipal governments.

As of June 30, 2004, investments consist of certificates of deposit and an investment in the Maryland Local Government Investment Pool. The certificates of deposit have varying dates of maturity exceeding one year and the investment in the Maryland Local Government has a maturity of less than one year.

Investments of the Village are classified into three categories to give an indication of the level of risk assumed at year-end. Category 1 includes investments insured or registered securities which are held by the Village or its agent in the Village’s name. Category 2 includes uninsured and unregistered investments with the securities held by the counterparty’s trust department or agent in the Village’s name. Category 3 includes uninsured and unregistered investments with the securities held by the counterparty or its trust department or agent but not in the Village’s name.

The Village is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, Mercantile-Safe Deposit and Trust Company. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pool shares.

	Categories			Carrying Amount	Market Value
	1	2	3		
Certificates of Deposit	\$ 792,557	\$ -	\$ -	\$ 792,557	\$ 792,557
Investment in Maryland Local Government Investment Pool				708,811	708,811
				\$ 1,501,368	\$ 1,501,368

CHEVY CHASE VILLAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 2 – PENSION PLAN

The Board of Managers of Chevy Chase Village established a trust-administered, single employer, defined contribution pension plan effective May 15, 1964, for eligible employees. Currently, the trustee for the plan is the Principal Financial Group.

Employees become active participants of the defined contribution money purchase pension plan after completing 12 months of employment in which a minimum of 1,000 hours has been worked and the employee is at least 21 years of age. The Village makes contributions equal to 10% of the active participants' annual compensation to the plan.

The trustee held no securities of the Village on behalf of the pension plan during or at the close of the fiscal year.

Non-vested portions of terminated participants' account balances are applied to reduce the earliest employer contribution made after the forfeitures are determined. Active participants may make non-deductible voluntary contributions of up to 10% of their annual compensation to their account balance. Voluntary employee contributions are 100% vested and employer contributions vest at the following rate:

<u>Vesting Service</u>	<u>Vesting Percentage</u>
Less than 3 years	0
At least 3 but less than 4 years	20
At least 4 but less than 5 years	40
At least 5 but less than 6 years	60
At least 6 but less than 7 years	80
7 or more years	100

The plan defines a vesting year of service as one in which the employee works 2,000 or more hours.

Total Village contributions were \$83,135 for the year ended June 30, 2004.

NOTE 3 – DEFERRED COMPENSATION PLAN

The Village offers to all its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property rights purchased with those amounts, and all income attributable to those amounts (until paid or made available to the employee or other beneficiary) shall be held in trust for the exclusive benefit of the plan participants and their beneficiaries, and the assets can not be diverted to any other purpose.

CHEVY CHASE VILLAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 3 – DEFERRED COMPENSATION PLAN (CONTINUED)

The plan is administered by the Hartford Life Insurance Corporation. In the year ended June 30, 2004, employee contributions to the plan totaled \$21,437.

NOTE 4 – PROPERTY TAXES

The property tax calendar is from July 1 through June 30 with taxes payable by September 30. The Village believes all property taxes to be fully collectible and makes no allowance for uncollectible property taxes.

Real and personal property taxes are levied at rates enacted by the Board of Managers in the annual budget on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and only after public hearings.

The real property tax rate during the year ended June 30, 2004 was \$.14 per \$100 of assessed value. The personal property tax rate was \$.50 per \$100 of assessed value. Real and personal property taxes are billed and collected by Montgomery County and remitted to the Village.

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets follows:

	Cost			
	Balance July 1, 2003	Additions	Deletions or Transfers out	
Capital Assets, Not Being Depreciated:				
Brookville land and improvements	\$ 313,891	\$ -	\$ -	\$ 313,891
Capital Assets, Being Depreciated:				
Village building and improvements	917,770	-	-	917,770
Building renovations – Town Hall	1,557,162	21,581	-	1,578,743
Office furniture and equipment	223,667	17,116	-	240,783
Police vehicles and equipment	390,367	136,178	33,279	493,266
Public works – vehicles and equipment	262,443	71,403	32,755	301,091
Parks and recreation – vehicles and equipment	30,997	-	-	30,997
	<u>3,382,406</u>	<u>246,278</u>	<u>66,034</u>	<u>3,562,650</u>
	3,696,297	246,278	66,034	3,876,541
Less accumulated depreciation	<u>1,356,996</u>	<u>183,335</u>	<u>-</u>	<u>1,540,331</u>
Net capital assets	<u>\$ 2,339,301</u>	<u>\$ 62,943</u>	<u>\$ 66,034</u>	<u>\$ 2,336,210</u>

CHEVY CHASE VILLAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 6 – NON-CURRENT LIABILITIES

The following is a summary of the changes in non-current liabilities for the year ended June 30, 2004. Village policy is to pay the eligible employee one hour wages for each three hours of accumulated sick leave.

Compensated Absences	<u>Balance July 1, 2003</u>	<u>Increase</u>	<u>Balance June 30, 2004</u>
Accrued sick leave	\$ 52,450	\$ 6,601	\$ 59,051
Accrued vacation payroll	<u>54,400</u>	<u>6,114</u>	<u>60,514</u>
	<u>\$ 106,850</u>	<u>\$ 12,715</u>	<u>\$ 119,565</u>

NOTE 7 – RISK MANAGEMENT

The Village’s risk management techniques include participation in a public entity pool and the purchase of commercial insurance.

For property, general liability, excess liability, primary auto, police liability, public official, and boiler and machinery liability coverage, the Village became a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool which is owned and directed by the local governments that subscribe to its coverages and operates under the terms of a Trust Agreement.

The Village pays LGIT an annual premium. Claims are processed and recoveries and administrative costs are paid by LGIT. Similar to a commercial insurance carrier, recoveries are subject to deductibles and to annual aggregate/per occurrence dollar limits. The maximum coverage under the liability pool of the Trust is \$3,000,000. In the event that the Trust experiences a deficit, it has the right to assess its members up to twice their annual premium. During the year ended June 30, 2004, the Village paid premiums of \$32,570 to the Trust.

The Village is fully insured for worker’s compensation through the Injured Worker’s Insurance Fund of Maryland. Employees are bonded through commercial insurance carriers to limit the loss to the Village in the event of employee acts of embezzlement or theft.

NOTE 8 – POLICE SERVICES

During 1995, the Village entered into agreements with the Town of Chevy Chase, Martin’s Additions, and Section 3 of the Village of Chevy Chase to provide police services to their communities. All agreements are for one-year renewable terms with payments based upon police service hours rendered. All contracts were renewed during the fiscal year ended June 30, 2004.

CHEVY CHASE VILLAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 9 – DEFERRED INCOME TAX REVENUE

At June 30, 2004, Chevy Chase Village was advised by the State of Maryland that \$607,680 of the Local Tax Reserve Fund was allocable to Chevy Chase Village. In accordance with the provisions of Government Accounting Standards Board pronouncement #33 which is effective for years ending after June 15, 2001, regarding the accounting and reporting of nonexchange transactions, the Village recorded income and a receivable from the State of \$44,316 since it was available for the satisfaction of current liabilities. The balance of the receivable of \$563,364 has been recorded as deferred income tax revenue.

NOTE 10 – WOHLFARTH PROPERTY

On August 12, 2002, Chevy Chase Village (Village) entered into a memorandum of understanding with Montgomery County (County) and the Maryland-National Capital Park Planning Commission (Commission) for the purpose of acquiring property immediately adjacent to the Village. This property, known as the Wohlfarth property is to be maintained and operated as a public park. The Village is expected to contribute \$1,250,000 to the cost of acquisition. Approximately \$311,600 of that amount will be provided by Program Open Space Funds which the Village will receive from the County. In addition to the \$200,000 paid in fiscal 2003, the Village will contribute \$100,000 per year through 2009 and the balance will be due July 15, 2010. The Village paid their required annual contribution of \$100,000 for fiscal 2004.

The Commission and the Village are responsible for developing a management plan for the property. If the property is annexed by the Village, it will be responsible for municipal services to the property and the Commission will handle park maintenance and operations.

The Village shall have the right of first refusal in the event that the County determines to sell all or a portion of the property. The purchase price would be 80% of the then current fair market value of the property to be sold. In the event the Village does not exercise its right of first refusal and the County sells the land, the Village shall receive the greater of 20% of the proceeds or the amount of money it contributed to the acquisition of the property. A sale of part of the property would adjust the Village's reimbursement proportionally to the fraction of the property sold.

This information is an integral part of the
accompanying financial statements.

SUPPLEMENTAL INFORMATION

CHEVY CHASE VILLAGE
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual Amounts -	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Property taxes	\$ 859,708	\$ 859,708	\$ 864,252	\$ 4,544
Income taxes	1,311,000	1,311,000	1,484,897	173,897
Highway user taxes	81,466	81,466	88,998	7,532
Total taxes	<u>2,252,174</u>	<u>2,252,174</u>	<u>2,438,147</u>	<u>185,973</u>
County reimbursements - duplication services	63,000	63,000	59,732	(3,268)
Intergovernmental assistance:				
State police grants	89,486	89,486	90,955	1,469
Federal law enforcement block grants	-	-	46,702	46,702
Contracted police services	265,441	265,441	247,990	(17,451)
Interest	15,473	15,473	18,112	2,639
Building rent	74,223	74,223	77,133	2,910
Other income	48,800	48,800	71,192	22,392
Total operating revenues	<u>2,808,597</u>	<u>2,808,597</u>	<u>3,049,963</u>	<u>241,366</u>
EXPENDITURES				
General government	560,330	580,330	467,923	112,407
Public safety	1,250,827	1,276,202	1,134,714	141,488
Public works	873,232	826,501	760,957	65,544
Parks and recreations	385,124	402,124	362,927	39,197
Village building	103,305	126,255	106,241	20,014
Total expenditures	<u>3,172,818</u>	<u>3,211,412</u>	<u>2,832,762</u>	<u>378,650</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (364,221)</u>	<u>\$ (402,815)</u>	<u>\$ 217,201</u>	<u>\$ 620,016</u>

CHEVY CHASE VILLAGE
SCHEDULE OF GENERAL GOVERNMENT EXPENDITURES
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Payroll	\$ 213,379	\$ 213,379	\$ 201,138	\$ 12,241
Employer obligations	17,176	17,176	15,047	2,129
Employee benefits	50,149	50,149	41,753	8,396
Contract labor/staff	2,500	2,500	-	2,500
Organizational development	15,400	15,400	11,758	3,642
Communications	5,610	5,610	3,789	1,821
Community relations	7,200	7,200	7,093	107
General expenditures	24,290	24,290	20,260	4,030
Insurance	35,700	35,700	32,570	3,130
Professional services	142,800	152,800	104,066	48,734
Service contracts	5,300	5,300	6,577	(1,277)
Supplies	4,800	4,800	5,208	(408)
Equipment maintenance and repair	1,200	1,200	781	419
Computer and technical support	4,000	4,000	4,180	(180)
Furniture and equipment purchases	1,500	1,500	1,518	(18)
Computer hardware and software	24,700	34,700	12,185	22,515
Payroll contingency	2,549	2,549	-	2,549
Operating contingency	2,077	2,077	-	2,077
	<u>\$ 560,330</u>	<u>\$ 580,330</u>	<u>\$ 467,923</u>	<u>\$ 112,407</u>

CHEVY CHASE VILLAGE
SCHEDULE OF PUBLIC SAFETY EXPENDITURES
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Payroll	\$ 748,745	\$ 748,745	\$ 686,774	\$ 61,971
Employer obligations	88,288	88,288	78,264	10,024
Employee benefits	179,206	179,206	146,119	33,087
Organizational development	20,620	20,620	12,588	8,032
Communications	13,220	13,220	14,926	(1,706)
Community relations	250	250	192	58
General expenditures	9,400	9,400	6,279	3,121
Insurance	11,918	11,918	7,714	4,204
Professional services	6,200	6,200	2,305	3,895
Service contracts	7,380	7,380	7,251	129
Supplies	4,800	4,800	4,901	(101)
Vehicle operations	30,000	30,000	20,520	9,480
Computer and technical support	3,500	3,500	2,930	570
Equipment maintenance and repair	2,000	2,000	1,977	23
Furniture purchases	600	600	805	(205)
Computer and technical support - equipment	68,500	93,875	78,825	15,050
Communications equipment	17,500	17,500	14,745	2,755
Other equipment	6,200	6,200	26,485	(20,285)
Vehicle purchase	25,000	25,000	21,114	3,886
Payroll contingency	6,702	6,702	-	6,702
Operating contingency	798	798	-	798
	<u>\$ 1,250,827</u>	<u>\$ 1,276,202</u>	<u>\$ 1,134,714</u>	<u>\$ 141,488</u>

CHEVY CHASE VILLAGE
SCHEDULE OF PUBLIC WORKS EXPENDITURES
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Payroll	\$ 222,917	\$ 222,917	\$ 225,044	\$ (2,127)
Employer obligations	27,983	27,983	26,877	1,106
Employee benefits	58,092	58,092	59,299	(1,207)
Contract labor/staff	16,500	16,500	13,182	3,318
Organizational development	500	500	-	500
Communications	3,475	3,475	4,718	(1,243)
Disposal and recycling	238,148	238,148	224,972	13,176
General expenditures	4,700	4,700	3,220	1,480
Infrastructure:				
Recurring maintenance and repair	3,000	3,000	3,398	(398)
Streets/sidewalks/storm drainage	200,000	110,000	69,127	40,873
Professional services	250	250	100	150
Snow removal	15,500	15,500	19,869	(4,369)
Small tools and shop supplies	3,000	3,000	3,028	(28)
Vehicles - operations	57,684	30,000	31,339	(1,339)
Equipment maintenance and repair	5,000	5,000	2,540	2,460
Office furniture & equipment - purchase	500	500	-	500
Equipment purchases	6,000	76,953	71,403	5,550
Building renovations 7150	5,000	5,000	2,841	2,159
Payroll contingency	2,006	2,006	-	2,006
Operating contingency	2,977	2,977	-	2,977
	<u>\$ 873,232</u>	<u>\$ 826,501</u>	<u>\$ 760,957</u>	<u>\$ 65,544</u>

CHEVY CHASE VILLAGE
SCHEDULE OF PARKS AND RECREATION EXPENDITURES
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Community relations	\$ 30,700	\$ 30,700	\$ 25,090	\$ 5,610
Infrastructure:				
Recurring maintenance and repairs	60,500	60,500	60,465	35
Professional services	4,500	4,500	-	4,500
Service contracts	2,000	2,000	2,283	(283)
Small tools and shop supplies	150	150	1,055	(905)
Trees	180,000	197,000	173,064	23,936
Wohlfarth property expenditure	100,000	100,000	100,000	-
Equipment maintenance/repair/operations	1,000	1,000	970	30
Operatiions and tree contingencies	6,274	6,274	-	6,274
	<u>\$ 385,124</u>	<u>\$ 402,124</u>	<u>\$ 362,927</u>	<u>\$ 39,197</u>

CHEVY CHASE VILLAGE
SCHEDULE OF VILLAGE BUILDING EXPENDITURES
Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Infrastructure:				
Recurring maintenance and repairs	\$ 7,500	\$ 7,500	\$ 8,899	\$ (1,399)
Building renovation and improvements	7,500	30,450	22,769	7,681
Insurance	500	500	-	500
Energy consultant	-	-	1,378	(1,378)
Service contracts	24,200	24,200	17,600	6,600
Supplies	5,250	5,250	2,470	2,780
Utilities	49,500	49,500	44,611	4,889
Equipment maintenance/repair/operations	8,000	8,000	5,968	2,032
Machinery & equipment purchases	-	-	2,546	(2,546)
Operations contingency	855	855	-	855
	<u>\$ 103,305</u>	<u>\$ 126,255</u>	<u>\$ 106,241</u>	<u>\$ 20,014</u>