



**CHEVY CHASE VILLAGE**  
Chevy Chase, Maryland

**FINANCIAL STATEMENTS**  
June 30, 2005

## TABLE OF CONTENTS

	PAGE
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	2
<b>FINANCIAL STATEMENTS</b>	
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	7
Statement of Activities.....	8
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	9
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net Assets .....	10
Statement of Revenues, Expenditures and Changes	
in Fund Balance – Governmental Funds.....	11
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures and Changes in Fund Balance to the Statement of Activities.....	12
Summary of Significant Accounting Policies.....	13
Notes to Financial Statements .....	17
<b>REQUIRED SUPPLEMENTAL INFORMATION</b> .....	23
Schedule of Revenues and Expenditures – Budget and Actual	
(Non-GAAP Budgetary Basis) – General Fund.....	24
Schedule of General Government Expenditures.....	25
Schedule of Public Safety Expenditures .....	26
Schedule of Public Works Expenditures.....	27
Schedule of Parks and Recreation Expenditures.....	28
Schedule of Village Building Expenditures.....	29
<b>Independent Auditor's Report on Internal Control Over Financial Reporting</b>	
<b>and on Compliance and Other Matters Based on Audit of Financial</b>	
<b>Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	30



## Independent Auditor's Report

Board of Managers  
Chevy Chase Village  
Chevy Chase, Maryland

We have audited the accompanying financial statements of the governmental activities and the governmental fund of Chevy Chase Village as of June 30, 2005, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 and governmental funds of Chevy Chase Village at June 30, 2005, 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's discussion and analysis found on pages 2 through 6, and budgetary comparison schedules found on pages 24 through 29, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005 on our consideration of Chevy Chase Village's internal control over financial reporting and on compliance and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control of financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Clifton Gunderson LLP*

Baltimore, Maryland  
August 12, 2005

**CHEVY CHASE VILLAGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005 and 2004**

The management of Chevy Chase Village, (the Village), consists of the Village Manager and the elected Board of Managers. As management, we offer readers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2005. New audit reporting standards (GASB 34) took effect last year and prior year comparisons are now required.

**Financial Summary**

The comparative data shown below represents Village's net assets (000's omitted).

	<u>2005</u>	<u>2004</u>
Capital assets	\$ 3,913	\$ 3,877
Less depreciation	<u>(1,711)</u>	<u>(1,579)</u>
Investment in capital assets - net	2,202	2,298
Unrestricted:		
Net assets	<u>2,198</u>	<u>2,380</u>
<b>Total</b>	<u>\$ 4,400</u>	<u>\$ 4,678</u>

The \$2,198 thousand now reported as "Unrestricted Net Assets" is \$258 and \$262 thousand above the amount reported in the Governmental Funds financial statements as Undesignated Fund Balance as of June 30, 2005 and 2004, respectively.

Financial operations during 2005 yielded results substantially more favorable than had been anticipated at the time of adoption of the FY 2005 budget. A comparison of budget vs. actual, based upon modified accrual accounting and using consistent year-to-year recording procedures, is shown in detail on page 24 and in summary below. Changes to Unreserved Fund Balance reflect the operational milestone Village management uses to assess year-to-year fiscal stability.

**Schedule of Revenue and Expenses – Budget and Actual**  
(in thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive/ (Negative)</u>
Revenue	\$ 2,871	\$ 2,826	\$ (46)
Expenditures	<u>3,023</u>	<u>2,823</u>	<u>202</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ (152)</u>	<u>\$ 4</u>	<u>\$ 156</u>

**CHEVY CHASE VILLAGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005 and 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 7 and 8 of this report. Reconciliations of the new GASB 34 "governmental activities" statements to the old "modified accrual" statements are provided on pages 10 and 12. The difference between the decrease in "net assets" during 2005 as measured on the full accrual basis (at \$278 thousand) and the increase in "fund balance" during 2005 (at \$4 thousand) is detailed on page 12.

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 13 – 22 of this report.

**Village Operations**

The Statement of Activities on page 8, 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 \$2,198 thousand is termed "Net Unrestricted Assets". A reconciliation of this GASB 34 Total Net Assets (\$4,399 thousand) to the \$1,940 thousand "Unreserved Fund Balance" which pre-GASB 34 accounting identified as of the same date is provided on page 10. The principal element in this reconciliation are included in the GASB 34 accounts of \$2,202 thousand in capital assets net of depreciation and \$409 thousand receivable calculated by the State as the Village's 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, 2005 and 2004**

<b>Change in Net Assets</b> (in thousands)		<b>2005</b>	<b>2004</b>
<b>Revenues</b>			
Program revenues:			
Charges for services	\$	271	\$ 345
Operating grants and contributions		225	191
Capital grants and contributions		-	50
General revenues:			
Property, income, highway user and taxes levied for general purposes		2,132	2,422
Miscellaneous		9	37
Unrestricted investment earnings		34	18
Total revenues		2,671	3,063
<b>Expenses</b>			
General government		487	484
Public safety		1,115	1,137
Public works		834	665
Parks and recreation		380	367
Village building		133	129
Total expenses		2,949	2,782
<b>Increase (decrease) in net assets</b>		(278)	281
<b>Net assets, beginning of year</b>		4,678	4,397
<b>Net assets, end of year</b>		\$ 4,400	\$ 4,678

**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, 2005 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, 2005 and 2004**

**Capital Assets  
(Net of Depreciation)  
(in thousands)**

	2005	2004
Land	\$ 314	\$ 314
Buildings and improvements	1,609	1,651
Police vehicles and equipment	154	190
Public works vehicles and equipment	78	88
Furniture and equipment	47	55
<b>Total</b>	<b>\$ 2,202</b>	<b>\$ 2,298</b>

Major capital asset events during the year ending June 30, 2005 included the following:

The Public Works department purchased a John Deere garden tractor with a plow and snow thrower for \$5 thousand to improve sidewalk clearing along Connecticut Avenue and the Buffer area during and after snow events. The Public Safety department purchased a new police cruiser for \$24 thousand as part of a scheduled vehicle replacement program.

The Public Safety department in a continued effort to enhance its computer-based information systems purchased new Crime Analysis & Mapping Software and upgraded the Communications Center computer for combined costs of \$4 thousand and \$2 thousand, respectively.

The Public Works department purchased pavement crack sealing equipment for \$8 thousand to support developing in-house streets maintenance programs.

**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, has used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Village adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with budget. The basic Governmental Fund financial statements can be found on pages 9 and 11.

The General Fund is the operating fund for Chevy Chase Village. At June 30, 2005, the Village's General Fund reported an ending fund balance of \$1.9 million. 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 69% of total General Fund expenditures.

**CHEVY CHASE VILLAGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005 and 2004**

**Fund Accounting and Budgets (Continued)**

The fund balance of Chevy Chase Village's General Fund increased by \$4 thousand during the current fiscal year versus an anticipated need in the 2005 budget to draw upon that fund to sustain 2005 operations in the amount of \$152 thousand. Key factors in this increase are as follows:

- Tax revenues were \$67 thousand less than projected.
- Other revenue sources were \$46 thousand greater than expected.
- Appropriated fund balance of \$152 thousand was not drawn upon as a financing source.
- Total expenditures were \$202 thousand less than budgeted.

**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% on residential properties. For fiscal year 2006, the growth in both real and personal property taxes is budgeted at 3.1% over fiscal year 2005 budgeted property taxes.

Income tax revenues for fiscal year 2006 are budgeted at the same level as budgeted for fiscal year 2005. 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 2006 revenues from these sources are budgeted at 58% over those budgeted for fiscal year 2005

For 2006, the Village budget anticipates a deficit of \$287 thousand reducing the fund balance by this amount to over the anticipated gap between revenue and total authorized 2006 expenses. Of this amount, \$80 thousand is for projects that had been authorized but not completed in 2005.

**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](mailto:ccv@montgomerycountymd.gov).

**CHEVY CHASE VILLAGE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 215,347
Investments	1,639,643
Due from other governments	542,911
Other receivables	12,928
Capital assets, net	<u>2,201,674</u>
Total assets	<u>4,612,503</u>
 <b>LIABILITIES</b>	
Accounts payable	42,196
Accrued salaries	17,740
Damage deposits	1,655
Deferred income	276
Non-current liabilities:	
Due within one year	50,808
Due in more than one year	<u>100,347</u>
Total liabilities	<u>213,022</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,201,674
Unrestricted	<u>2,197,807</u>
 <b>TOTAL NET ASSETS</b>	 <u><u>\$ 4,399,481</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, 2005**

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 487,276	\$ 21,931	\$ -	\$ -	\$ (465,345)
Public safety	1,115,120	162,055	92,109	-	(860,956)
Public works	833,441	1,965	116,843	-	(714,633)
Parks and recreation	380,339	-	16,415	-	(363,924)
Village building	133,291	85,020	-	-	(48,271)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 2,949,467</b>	<b>\$ 270,971</b>	<b>\$ 225,367</b>	<b>\$ -</b>	<b>(2,453,129)</b>
General revenues:					
Taxes:					
Property, levied for general purposes					920,813
Income taxes					1,129,484
Shared taxes					81,238
Miscellaneous					9,346
Unrestricted investment earnings					33,726
<b>TOTAL GENERAL REVENUES AND SPECIAL ITEMS</b>					<b>2,174,607</b>
<b>CHANGE IN NET ASSETS</b>					<b>(278,522)</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>					<b>4,678,003</b>
<b>NET ASSETS - END OF YEAR</b>					<b>\$ 4,399,481</b>

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, 2005**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 215,347
Investments	1,639,643
Due from other governments	542,911
Other receivables	<u>12,928</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,410,829</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 42,196
Accrued expenses	17,740
Damage deposits	1,655
Deferred income tax revenue	<u>408,994</u>
Total liabilities	<u>470,585</u>
<b>FUND BALANCE</b>	
Unreserved:	
Undesignated	<u>1,940,244</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 2,410,829</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, 2005**

<b>Total fund balance - governmental funds (page 9)</b>	<b>\$ 1,940,244</b>
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 \$3,912,755 and the accumulated depreciation is \$1,711,081.	2,201,674
Deferred revenues are recorded on the modified accrual basis.	408,718
Non-current liabilities are not reported as liabilities in the governmental funds	<u>(151,155)</u>
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (page 7)</b>	<b><u><u>\$ 4,399,481</u></u></b>

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, 2005**

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes - income and property	\$ 2,204,944
Taxes - state and county shared revenues	198,081
Fees, licenses and permits	28,950
Fines and forfeitures	14,045
Investment earnings	33,726
Federal and state police grants	92,109
Contracted police services	149,205
Rent	85,020
Miscellaneous	19,512
	<u>2,825,592</u>
Total revenues	<u>2,825,592</u>
<b>EXPENDITURES</b>	
General government	466,163
Public safety	1,067,526
Public works	816,260
Parks and recreation	380,339
Village building	91,429
	<u>2,821,717</u>
Total expenditures	<u>2,821,717</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	3,875
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>1,936,369</u>
<b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 1,940,244</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, 2005**

<b>Total net change in fund balances - governmental funds (page 11)</b>	<b>\$ 3,875</b>
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 depreciation expense (\$152,447) exceeds capital outlay (\$56,287) in the period.	(96,160)
Decrease in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. This is the decrease in the State Income Tax Reserve.	(154,656)
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>(31,581)</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 8)</b>	<b><u><u>\$ (278,522)</u></u></b>

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, 2005**

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, 2005**

**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 STANDARD**

Effective July 1, 2004, the Village has adopted the provisions of Statement No. 40 of the Governmental Accounting Standards Board (GASB), *Deposit and Investment Risk Disclosures*.

**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 at time of purchase. 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. The Village also has invested in several bank-issued certificates of deposit. One of these certificates for \$100,000 was issued by an out-of-state bank, which is in violation of the Annotated Code of Maryland.

**CHEVY CHASE VILLAGE**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**June 30, 2005**

**ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (CONTINUED)**

**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.

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, 2005, the liability to the Village employees for accrued annual and sick leave was \$69,685 and \$81,470, 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.

**CHEVY CHASE VILLAGE**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**June 30, 2005**

**ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (CONTINUED)**

**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, 2005.
- *Unrestricted net assets* - This category presents the net assets of the Village not included elsewhere.

**CHEVY CHASE VILLAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 – CASH AND INVESTMENTS**

A. Cash on hand

At year-end, cash on hand for petty cash and change funds was \$200.

B. Deposits

At year-end, the carry amount of the Village's deposit was \$215,147 and the bank balance was \$334,548. The deposits of the Village were not exposed to custodial credit risk at June 30, 2005. The Village has a contractual arrangement with the bank for funds to be transferred daily from investment in a repurchase agreement to cover checks as presented.

C. Reconciliation of cash and investments as shown on the Statement of Net Assets:

Cash on hand	\$ 200
Carrying amount of deposits	215,147
Carrying amount of investments	<u>1,639,643</u>
<b>Total cash and investments per Statement of Net Assets</b>	<b><u>\$ 1,854,990</u></b>

**Investment rate risk**

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Village's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities. Management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Village from having to sell investments below original cost for that purpose. The investments at June 30, 2005, met the Village's investment policy as of that date.

Investment income includes the following for the year ended June 30, 2005:

<b>Net interest and dividends</b>	<b><u>\$ 33,726</u></b>
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**CHEVY CHASE VILLAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 – CASH AND INVESTMENTS (CONTINUED)**

**Credit risk**

Village investment policy does not permit investments in commercial paper or corporate bonds, except under state law in the state investment pool. The Village invests in the Maryland Local Investment Pool (MLGIP) which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95, Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard & Poor, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. Investments also include Bank Certificates of Deposit and U.S. Treasury Bills.

**Custodial credit risk**

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Village will not be able to recover all of a portion of the value of its investments or collateral securities that are in the possession of an outside party. For the Village's \$212,624 in repurchase agreements, \$212,642 in underlying securities was held by Chevy Chase Bank in the Village's name. At June 30, 2005, all of the Village's investments were insured or registered, or for which the securities were held by the Village or its agent in the Village's name or were invested in the MLGIP.

**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:

**CHEVY CHASE VILLAGE  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 2 – PENSION PLAN (CONTINUED)**

<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 \$107,814 for the year ended June 30, 2005.

**NOTE 3 – DEFERRED COMPENSATION PLAN**

The Village offers to all its employees a deferred compensation plan created in accordance with Internal Revenue Code 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 and are not included in the Village's financial statements.

The plan is administered by the Hartford Life Insurance Corporation. In the year ended June 30, 2005, employee contributions to the plan totaled \$19,007.

**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, 2005 was \$.14 per \$100 of assessed value. The personal property tax rate was \$.60 per \$100 of assessed value. Real and personal property taxes are billed and collected by Montgomery County and remitted to the Village.

**CHEVY CHASE VILLAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 5 – CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Cost			Balance June 30, 2005
	Balance July 1, 2004	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	1,578,743	2,981	-	1,581,724
Office furniture and equipment	240,783	7,958	-	248,741
Police vehicles and equipment	493,266	32,304	(20,073)	505,497
Public works –				
vehicles and equipment	301,091	13,044	-	314,135
Parks and recreation –				
vehicles and equipment	30,997	-	-	30,997
	<u>3,876,541</u>	<u>56,287</u>	<u>(20,073)</u>	<u>3,912,755</u>
Less accumulated depreciation	<u>(1,578,707)</u>	<u>(152,447)</u>	<u>20,073</u>	<u>(1,711,081)</u>
Net capital assets	<u>\$ 2,297,834</u>	<u>\$ (96,160)</u>	<u>\$ -</u>	<u>\$ 2,201,674</u>

**NOTE 6 – NON-CURRENT LIABILITIES**

The following is a summary of the changes in non-current liabilities for the year ended June 30, 2005. Village policy is to pay the eligible employee one hour wages for each three hours of accumulated sick leave.

	Balance July 1, 2004	Increase	Balance June 30, 2005
<b>Compensated Absences</b>			
Accrued sick leave	\$ 59,051	\$ 10,634	\$ 69,685
Accrued vacation payroll	<u>60,514</u>	<u>20,956</u>	<u>81,470</u>
	<u>\$ 119,565</u>	<u>\$ 31,590</u>	<u>\$ 151,155</u>

**CHEVY CHASE VILLAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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, 2005, the Village paid premiums of \$31,545 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, 2005.

**NOTE 9 – DEFERRED INCOME TAX REVENUE**

At June 30, 2005, Chevy Chase Village was advised by the State of Maryland that \$526,937 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 \$118,219 since it was available for the satisfaction of current liabilities. The balance of the receivable of \$408,718 has been recorded as deferred income tax revenue.

**CHEVY CHASE VILLAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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 2005.

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.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CHEVY CHASE VILLAGE**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>OPERATING REVENUES</b>				
Property taxes	\$ 924,155	\$ 924,155	\$ 920,816	\$ (3,339)
Income taxes	1,379,000	1,379,000	1,284,129	(94,871)
Highway user taxes	85,539	85,539	116,843	31,304
Total taxes	<u>2,388,694</u>	<u>2,388,694</u>	<u>2,321,788</u>	<u>(66,906)</u>
County reimbursements - duplication services	55,000	55,000	81,238	26,238
Intergovernmental assistance:				
State police grants	80,538	80,538	92,109	11,571
Federal law enforcement block grants	35,000	35,000	-	(35,000)
Contracted police services	157,920	157,920	149,205	(8,715)
Interest	21,490	21,490	33,726	12,236
Building rent	82,625	82,625	85,020	2,395
Other income	50,174	50,174	62,506	12,332
Total operating revenues	<u>2,871,441</u>	<u>2,871,441</u>	<u>2,825,592</u>	<u>(45,849)</u>
<b>EXPENDITURES</b>				
General government	508,317	508,317	466,163	42,154
Public safety	1,186,648	1,186,648	1,067,526	119,122
Public works	922,533	842,533	816,260	26,273
Parks and recreations	389,900	389,900	380,339	9,561
Village building	96,100	96,100	91,429	4,671
Total expenditures	<u>3,103,498</u>	<u>3,023,498</u>	<u>2,821,717</u>	<u>201,781</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>\$ (232,057)</u>	<u>\$ (152,057)</u>	<u>\$ 3,875</u>	<u>\$ 155,932</u>

**CHEVY CHASE VILLAGE**  
**SCHEDULE OF GENERAL GOVERNMENT EXPENDITURES**  
**Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
Payroll	\$ 210,036	\$ 210,036	\$ 195,343	\$ 14,693
Employer obligations	18,110	18,110	15,294	2,816
Employee benefits	42,391	42,391	37,167	5,224
Organizational development	14,450	14,450	12,200	2,250
Communications	5,380	5,380	4,017	1,363
Community relations	7,200	7,200	8,330	(1,130)
General expenditures	20,890	20,890	19,726	1,164
Insurance	35,300	35,300	24,966	10,334
Professional services	119,500	119,500	120,868	(1,368)
Service contracts	7,560	7,560	6,857	703
Supplies	4,800	4,800	4,860	(60)
Equipment maintenance and repair	1,000	1,000	148	852
Computer and technical support	3,000	3,000	2,060	940
Furniture and equipment purchases	1,000	1,000	827	173
Computer hardware and software	17,700	17,700	13,500	4,200
	<u>\$ 508,317</u>	<u>\$ 508,317</u>	<u>\$ 466,163</u>	<u>\$ 42,154</u>

**CHEVY CHASE VILLAGE**  
**SCHEDULE OF PUBLIC SAFETY EXPENDITURES**  
**Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
Payroll	\$ 754,290	\$ 754,290	\$ 708,015	\$ 46,275
Employer obligations	90,625	90,625	85,591	5,034
Employee benefits	162,483	162,483	152,823	9,660
Organizational development	14,500	14,500	10,097	4,403
Communications	18,000	18,000	16,364	1,636
Community relations	250	250	296	(46)
General expenditures	7,500	7,500	4,361	3,139
Insurance	9,000	9,000	5,979	3,021
Professional services	5,000	5,000	450	4,550
Service contracts	12,000	12,000	12,160	(160)
Supplies	4,800	4,800	4,732	68
Vehicle operations	26,600	26,600	21,926	4,674
Computer and technical support	3,000	3,000	2,185	815
Equipment maintenance and repair	2,000	2,000	1,558	442
Furniture purchases	600	600	-	600
Computer and technical support - equipment	40,000	40,000	9,407	30,593
Communications equipment	5,000	5,000	-	5,000
Other equipment	8,000	8,000	7,550	450
Vehicle purchase	23,000	23,000	24,032	(1,032)
	<u>\$ 1,186,648</u>	<u>\$ 1,186,648</u>	<u>\$ 1,067,526</u>	<u>\$ 119,122</u>

**CHEVY CHASE VILLAGE**  
**SCHEDULE OF PUBLIC WORKS EXPENDITURES**  
**Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
Payroll	\$ 237,238	\$ 237,238	\$ 235,701	\$ 1,537
Employer obligations	30,845	30,845	30,654	191
Employee benefits	59,670	59,670	58,849	821
Contract labor/staff	12,500	12,500	12,001	499
Organizational development	500	500	250	250
Communications	4,380	4,380	2,938	1,442
Disposal and recycling	239,950	242,850	244,145	(1,295)
General expenditures	7,200	7,200	7,409	(209)
Infrastructure:				
Recurring maintenance and repair	5,000	5,000	3,965	1,035
Streets/sidewalks/storm drainage	240,000	154,000	148,450	5,550
Professional services	250	250	-	250
Snow removal	22,000	25,100	25,080	20
Small tools and shop supplies	3,000	3,000	2,424	576
Vehicles - operations	30,000	30,000	30,018	(18)
Equipment maintenance and repair	5,000	5,000	4,008	992
Equipment purchases	5,000	5,000	5,400	(400)
Vehicle purchases	15,000	15,000	-	15,000
Building renovations	5,000	5,000	4,968	32
	<u>\$ 922,533</u>	<u>\$ 842,533</u>	<u>\$ 816,260</u>	<u>\$ 26,273</u>

**CHEVY CHASE VILLAGE**  
**SCHEDULE OF PARKS AND RECREATION EXPENDITURES**  
**Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
Community relations	\$ 26,700	\$ 26,700	\$ 21,352	\$ 5,348
Infrastructure:				
Recurring maintenance and repairs	58,000	58,000	57,746	254
Professional services	5,000	5,000	-	5,000
Service contracts	1,700	1,700	1,339	361
Small tools and shop supplies	1,000	1,000	995	5
Trees	194,000	194,000	195,246	(1,246)
Wohlfarth property expenditure	100,000	100,000	100,000	-
Equipment maintenance/repair/operations	1,000	1,000	2,639	(1,639)
Operations and tree contingencies	2,500	2,500	1,022	1,478
	<u>\$ 389,900</u>	<u>\$ 389,900</u>	<u>\$ 380,339</u>	<u>\$ 9,561</u>

**CHEVY CHASE VILLAGE**  
**SCHEDULE OF VILLAGE BUILDING EXPENDITURES**  
**Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Infrastructure:				
Recurring maintenance and repairs	\$ 7,500	\$ 7,500	\$ 6,691	\$ 809
Building renovation and improvements	5,000	5,000	5,000	-
Insurance	500	500	511	(11)
Service contracts	22,200	22,200	20,390	1,810
Supplies	4,400	4,400	3,768	632
Utilities	49,500	49,500	49,340	160
Equipment maintenance/repair/operations	7,000	7,000	5,729	1,271
	<u>\$ 96,100</u>	<u>\$ 96,100</u>	<u>\$ 91,429</u>	<u>\$ 4,671</u>

**Independent Auditor's Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Board of Managers  
Chevy Chase Village  
Chevy Chase, Maryland

We have audited the financial statements of the governmental activities and the governmental fund of Chevy Chase Village as of and for the year ended June 30, 2005, which collectively comprise the Chevy Chase Village's basic financial statements and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Chevy Chase Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Chevy Chase Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Managers and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Baltimore, Maryland  
August 12, 2005