CHEVY CHASE VILLAGE
Chevy Chase, Maryland

FINANCIAL STATEMENTS
June 30, 2006

TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 2

FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTAL INFORMATION 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

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* 30

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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, 2006, 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, 2006, 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 11, 2006 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 11, 2006

Offices in 15 states and Washington, DC

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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, 2006.

Financial Summary

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

	2006	2005
Current and other assets	$ 3,463	$ 2,411
Capital assets, net of depreciation (2006, $1,813; 2005, $1,711)	2,183	2,202
	5,646	4,613
Other liabilities	184	113
Long-term liabilities	122	100
	306	213
Investment in capital assets – net total liabilities	2,183	2,202
Unrestricted	3,157	2,198
Total net assets	$ 5,340	$ 4,400

The $3,157 and $2,198 thousand now reported as "Unrestricted Net Assets" are $566 and $258 thousand above the amount reported in the Governmental Funds financial statements as Undesignated Fund Balance as of June 30, 2006 and 2005, respectively.

Financial operations during FY 2006 yielded results substantially more favorable than had been anticipated at the time of adoption of the FY 2006 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)

	Budget	Actual	Variance Positive/ (Negative)
Revenue	$ 2,979	$ 3,911	$ 932
Expenditures	3,352	3,260	92
Excess (deficiency) of revenues over expenditures	$ (373)	$ 651	$ 1,024

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 modified accrual statements are provided on pages 10 and 12. The difference between the increase in "net assets" during 2006 as measured on the full accrual basis (at $940,000) and the increase in "fund balance" during 2006 (at $651,000) 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 of 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 $2,198,000 is termed "Net Unrestricted Assets." A reconciliation of this GASB 34 Total Net Assets ($5,340,000) to the $2,591,000 "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 $2,182,000 in capital assets net of depreciation and $748,000 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:

Change in Net Assets
(in thousands)

	2006	2005
Revenues		
Program revenues:		
Charges for services	$ 257	$ 271
Operating grants and contributions	255	225
General revenues:		
Property, income, highway user and taxes levied for general purposes	3,634	2,132
Miscellaneous	27	9
Unrestricted investment earnings	77	34
Total revenues	4,250	2,671
Expenses		
General government	576	487
Public safety	1,178	1,115
Public works	923	834
Parks and recreation	437	380
Village building	196	133
Total expenses	3,310	2,949
Increase (decrease) in net assets	940	(278)
Net assets, beginning of year	4,400	4,678
Net assets, end of year	$ 5,340	$ 4,400

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 $5.3 million as of June 30, 2006 and included $2.183 million in capital assets net of depreciation plus the $3,157 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.

Capital Assets
(Net of Depreciation)
(in thousands)

	2006	2005
Land	$ 314	$ 314
Buildings and improvements	1,564	1,609
Police vehicles and equipment	108	154
Public works vehicles and equipment	155	78
Furniture and equipment	42	47
Total	$ 2,183	$ 2,202

Major capital asset events during the year ending June 30, 2006 included the following:

The Public Works department purchased a New Holland tractor and two work trucks for $109,000. The Public Safety department purchased a new police motorcycle and callbox for $24,000 as part of a scheduled vehicle replacement program.

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, which can be found on pages 24-29. 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, 2006, the Village's General Fund reported an ending fund balance of $2.591 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 79% of total General Fund expenditures.

The fund balance of Chevy Chase Village's General Fund increased by $651,000 during the current fiscal year versus an anticipated need in the 2006 budget to draw upon that fund to sustain 2006 operations in the amount of $373,000. Key factors in this increase are as follows:

- Tax revenues were $863,000 more than projected due to additional income tax revenues received in 2006.
- Other revenue sources were $69,000 greater than expected due to additional interest income from increase in rates and an increase in activity reimbursements.

- Appropriated fund balance of $373,000 was not drawn upon as a financing source.
- Total expenditures were $92,000 less than budget due to a lower amount spent on infrastructure repairs and less payroll in public safety.

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 were beyond its direct control, are quite variable. The State of Maryland is realizing significant growth in real property assessments and this trend has a major impact on the Village's property tax revenues. For fiscal year 2007, the growth in both real and personal property taxes is budgeted at 4.1% over fiscal year 2006 budgeted property taxes.

Income tax revenues for fiscal year 2007 are budgeted 14% higher than fiscal year 2006 budget. Income tax revenue has proven highly variable, changing by as much as 25% year-to-year. For 2007 this was a 27% decrease from 2006 actual.

For 2007, the Village budget anticipates a deficit of $185,000 reducing the fund balance by this amount to cover the anticipated gap between revenue and total authorized 2007 expenses. Of this amount, $113,000 is for projects that were authorized, but not completed in 2006.

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, 2006

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 167,070
Investments	2,325,239
Due from other governments	925,525
Other receivables	27,527
Deposits	17,850
Capital assets, net	2,182,976
Total assets	5,646,187
LIABILITIES	
Accounts payable	94,445
Accrued salaries	26,824
Damage deposits	1,855
Non-current liabilities:	
Due within one year	61,000
Due in more than one year	121,996
Total liabilities	306,120
NET ASSETS	
Invested in capital assets, net of related debt	2,182,976
Unrestricted	3,157,091
TOTAL NET ASSETS	$ 5,340,067

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, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Governmental activities:					
General government	$ 576,012	$ 30,964	$ -	$ -	$ (545,048)
Public safety	1,178,359	134,147	100,150	-	(944,062)
Public works	923,383	1,855	137,944	-	(783,584)
Parks and recreation	436,428	-	16,962	-	(419,466)
Village building	196,213	89,580	-	-	(106,633)
TOTAL GOVERNMENTAL ACTIVITIES	$ 3,310,395	$ 256,546	$ 255,056	$ -	(2,798,793)
General revenues:					
Taxes:					
Property, levied for general purposes					960,267
Income taxes					2,571,780
Shared taxes					102,362
Miscellaneous					27,359
Unrestricted investment earnings					77,611
Total general revenues and special items					3,739,379
CHANGE IN NET ASSETS					940,586
NET ASSETS, BEGINNING OF YEAR					4,399,481
NET ASSETS, END OF YEAR					$ 5,340,067

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, 2006

	General Fund
ASSETS	
ASSETS	
Cash and cash equivalents	$ 167,070
Investments	2,325,239
Due from other governments	925,525
Other receivables	27,527
Deposits	17,850
TOTAL ASSETS	$ 3,463,211
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 94,445
Accrued expenses	26,824
Damage deposits	1,855
Deferred income tax revenue	748,458
Total liabilities	871,582
FUND BALANCE	
Unreserved - undesignated	2,591,629
TOTAL LIABILITIES AND FUND BALANCE	$ 3,463,211

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, 2006

Total fund balance - governmental funds (page 9)	$ 2,591,629
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 $3,996,253 and the accumulated depreciation is $1,813,277.	2,182,976
Deferred revenues are recorded on the modified accrual basis.	748,458
Non-current liabilities are not reported as liabilities in the governmental funds.	(182,996)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (page 7)	$ 5,340,067

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, 2006

	General Fund
REVENUES	
Taxes - income and property	$ 3,192,308
Taxes - state and county shared revenues	240,306
Fees, licenses and permits	38,324
Fines and forfeitures	14,765
Investment earnings	77,612
Federal and state police grants	100,150
Contracted police services	121,448
Rent	89,580
Miscellaneous	36,747
Total revenues	3,911,240
EXPENDITURES	
General government	555,199
Public safety	1,124,881
Public works	991,978
Parks and recreation	436,428
Village building	151,369
Total expenditures	3,259,855
EXCESS OF REVENUES OVER EXPENDITURES	651,385
FUND BALANCE, BEGINNING OF YEAR	1,940,244
FUND BALANCE, END OF YEAR	$ 2,591,629

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
Year Ended June 30, 2006

Total net change in fund balances - governmental funds (page 11)	$	651,385
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 ($160,406) exceeds capital outlay ($141,708) in the period.		(18,698)
Increase 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 increase in the State Income Tax Reserve.		339,740
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.		(31,841)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 8)	$	940,586

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, 2006

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 Village 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 Activities 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.

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.

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.

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

Category	Years
Buildings and improvements and infrastructure	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, 2006, the liability to the Village employees for accrued annual and sick leave was $182,996 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.

Post-employment Benefits

The Village does not provide any post-retirement benefits to its employees.

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 net assets subject to external restrictions imposed by creditors, grantors or laws and regulations of other governments. There are no restricted net assets as of June 30, 2006.

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

NOTE 1 – CASH AND INVESTMENTS

A. Cash on hand
At year-end, cash on hand for petty cash and change funds was $300.

B. Deposits
At year-end, the carrying amount of the Village's deposit was $166,070 and the bank balance was $341,568. The deposits of the Village were not exposed to custodial credit risk at June 30, 2006. 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. 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.

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

Cash on hand	$ 300
Carrying amount of deposits	166,770
Total	167,070
Carrying amount of investments	2,325,239
Total cash and investments per Statement of Net Assets	$ 2,492,309

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 Village'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, 2006, met the Village's investment policy as of that date. Investment income includes the following for the year ended June 30, 2006:

Net interest and dividends	$ 77,611

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.

NOTE 1 – CASH AND INVESTMENTS (CONTINUED)

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 or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, 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:

Vesting Service	Vesting Percentage
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 $113,359 for the year ended June 30, 2006.

NOTE 3 – DEFERRED COMPENSATION PLAN

The Village offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 to all its employees. 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, 2006, employee contributions to the plan totaled $16,562.

NOTE 4 – PROPERTY TAXES

The property tax calendar is from July 1 through June 30 with taxes payable by September 30 and December 31. 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, 2006 was $0.13 per $100 of assessed value. The personal property tax rate was $0.60 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 June 30, 2005	Additions	Deletions or Transfers out	Balance June 30, 2006
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	1,581,724	-	-	1,581,724
Office furniture and equipment	248,741	8,154	-	256,895
Police vehicles and equipment	505,497	24,350	-	529,847
Public works – vehicles and equipment	314,135	109,204	58,210	365,129
Parks and recreation – vehicles and equipment	30,997	-	-	30,997
	3,912,755	141,708	58,210	3,996,253
Less accumulated depreciation	1,711,081	160,406	58,210	1,813,277
Net capital assets	$ 2,201,674	$ (18,698)	$ -	$ 2,182,976

NOTE 6 – NON-CURRENT LIABILITIES

The following is a summary of the changes in non-current liabilities for the year ended June 30, 2006. Village policy is to pay the eligible employee one hour wages for each three hours of accumulated sick leave.

Compensated Absences	Balance June 30, 2005	Increase	Balance June 30, 2006	Due Within One Year
Accrued sick leave	$ 69,685	$ 12,792	$ 82,477	$ 27,500
Accrued vacation payroll	81,470	19,049	100,519	33,500
Total	$ 151,155	$ 31,841	$ 182,996	$ 61,000

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 $5,000,000. 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, 2006, the Village paid premiums of $31,563 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, Chevy Chase View, the Town of Somerset, 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 in effect during the fiscal year ended June 30, 2006.

NOTE 9 – DEFERRED INCOME TAX REVENUE

At June 30, 2006, Chevy Chase Village was advised by the State of Maryland that $908,713 of the Local Tax Reserve Fund was allocable to Chevy Chase Village. In accordance with the provisions of Government Accounting Standards Board pronouncement #33 regarding the accounting and reporting of nonexchange transactions, the Village recorded income and a receivable from the State of $160,255 since it was available for the satisfaction of current liabilities. The balance of the receivable of $748,458 has been recorded as deferred income tax revenue. This deferred amount has been reflected as increase in the entity-wide statements in accordance with full accrual accounting.

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 2006.

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, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Property taxes	$ 952,935	$ 952,935	$ 960,267	$ 7,332
Income taxes	1,379,000	1,379,000	2,232,041	853,041
Highway user taxes	135,000	135,000	137,944	2,944
Total taxes	2,466,935	2,466,935	3,330,252	863,317
County reimbursements - duplication services	86,000	86,000	102,362	16,362
Intergovernmental assistance:				
State police grants	91,000	91,000	86,740	(4,260)
Federal law enforcement block grants	35,000	35,000	13,410	(21,590)
Contracted police services	104,492	104,492	121,448	16,956
Interest	52,072	52,072	77,612	25,540
Building rent	84,775	84,775	89,580	4,805
Other income	58,505	58,505	89,836	31,331
Total operating revenues	2,978,779	2,978,779	3,911,240	932,461
EXPENDITURES				
General government	554,597	564,597	555,199	9,398
Public safety	1,157,109	1,157,108	1,124,881	32,227
Public works	853,842	1,031,843	991,978	39,865
Parks and recreation	442,100	440,200	436,428	3,772
Village building	178,550	158,550	151,369	7,181
Total expenditures	3,186,198	3,352,298	3,259,855	92,443
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (207,419)	$ (373,519)	$ 651,385	$ 1,024,904

CHEVY CHASE VILLAGE
SCHEDULE OF GENERAL GOVERNMENT EXPENDITURES
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Payroll	$ 260,534	$ 259,834	$ 258,740	$ 1,094
Employer obligations	21,176	21,176	21,322	(146)
Employee benefits	54,167	48,767	46,257	2,510
Organizational development	14,200	12,800	12,375	425
Communications	5,720	5,720	4,715	1,005
Community relations	7,200	7,200	9,400	(2,200)
General expenditures	20,240	20,240	18,566	1,674
Insurance	29,400	29,400	28,359	1,041
Professional services	118,000	135,500	136,679	(1,179)
Service contracts	3,860	3,860	4,149	(289)
Supplies	4,800	4,800	4,777	23
Equipment maintenance and repair	2,000	2,000	1,951	49
Computer and technical support	1,800	1,800	984	816
Furniture and equipment purchases	1,000	1,000	927	73
Computer hardware and software	8,500	8,500	3,998	4,502
Equipment purchases	2,000	2,000	2,000	-
TOTAL GENERAL GOVERNMENT EXPENDITURES	$ 554,597	$ 564,597	$ 555,199	$ 9,398

CHEVY CHASE VILLAGE
SCHEDULE OF PUBLIC SAFETY EXPENDITURES
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Payroll	$ 763,103	$ 756,853	$ 738,638	$ 18,215
Employer obligations	95,447	95,446	94,454	992
Employee benefits	164,789	164,789	159,712	5,077
Organizational development	14,000	14,000	11,893	2,107
Communications	20,010	20,010	19,006	1,004
Community relations	250	250	228	22
General expenditures	6,160	6,160	5,191	969
Insurance	6,750	6,750	6,000	750
Professional services	4,000	4,000	3,301	699
Service contracts	11,800	11,800	11,411	389
Supplies	4,800	4,800	4,809	(9)
Vehicles	24,000	29,000	31,542	(2,542)
Equipment maintenance and repair	2,900	2,900	1,827	1,073
Computer and technical support	2,000	2,000	900	1,100
Furniture purchases	600	600	397	203
Computer and technical support - equipment	12,000	12,000	11,997	3
Communications equipment	2,500	2,500	1,339	1,161
Other equipment	6,000	6,000	4,986	1,014
Vehicle purchase	16,000	17,250	17,250	-
TOTAL PUBLIC SAFETY EXPENDITURES	$ 1,157,109	$ 1,157,108	$ 1,124,881	$ 32,227

CHEVY CHASE VILLAGE
SCHEDULE OF PUBLIC WORKS EXPENDITURES
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Payroll	$ 253,599	$ 258,599	$ 259,374	$ (775)
Employer obligations	35,630	35,630	34,202	1,428
Employee benefits	63,563	63,564	66,993	(3,429)
Contract labor/staff	12,500	12,500	9,186	3,314
Organizational development	750	750	734	16
Communications	5,100	5,100	3,984	1,116
Disposal and recycling	257,250	256,750	248,716	8,034
General expenditures	7,200	26,700	28,492	(1,792)
Infrastructure:				
Streets/sidewalks/srtorm drainage	75,000	225,000	189,937	35,063
Professional services	250	250	-	250
Snow removal	22,000	17,000	15,841	1,159
Small tools and shop supplies	3,000	3,000	2,867	133
Vehicles - operations	28,000	28,000	34,534	(6,534)
Equipment maintenance and repair	5,000	5,000	4,723	277
Equipment purchases	5,000	5,000	4,896	104
Vehicle purchases	80,000	89,000	87,499	1,501
TOTAL PUBLIC WORKS EXPENDITURES	$ 853,842	$ 1,031,843	$ 991,978	$ 39,865

CHEVY CHASE VILLAGE
SCHEDULE OF PARKS AND RECREATION EXPENDITURES
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Community relations	$ 24,400	$ 22,500	$ 23,728	$ (1,228)
Infrastructure:				
Recurring maintenance and repair	60,000	75,000	74,110	890
Professional services	5,000	5,000	-	5,000
Service contracts	1,700	1,700	1,622	78
Small tools and shop supplies	200	200	176	24
Trees	209,000	209,000	204,570	4,430
Equipment maintenance/repair/operations	1,800	1,800	1,429	371
Wohlfarh property expenditure	100,000	100,000	100,000	-
Building & parks capital purchases	18,000	18,000	30,793	(12,793)
Communications/security equipment	21,000	6,000	-	6,000
Equipment purchases	1,000	1,000	-	1,000
TOTAL PARKS AND RECREATION EXPENDITURES	$ 442,100	$ 440,200	$ 436,428	$ 3,772

CHEVY CHASE VILLAGE
SCHEDULE OF VILLAGE BUILDING EXPENDITURES
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Infrastructure:				
Recurring maintenance and repair	$ 20,000	$ 20,000	$ 19,281	$ 719
Building renovation and improvements	71,000	51,000	41,939	9,061
Insurance	550	550	482	68
Service contracts	20,000	20,000	19,429	571
Supplies	3,200	3,200	2,950	250
Utilities	53,800	53,800	58,317	(4,517)
Equipment maintenance/repair/operations	10,000	10,000	8,971	1,029
TOTAL VILLAGE BUILDING EXPENDITURES	$ 178,550	$ 158,550	$ 151,369	$ 7,181

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

Board of Directors
Chevy Chase Village
Chevy Chase, Maryland

We have audited the financial statements of Chevy Chase Village as of and for the year ended June 30, 2006 and have issued our report thereon dated August 11, 2006. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Chevy Chase Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable condition during our audit:

SEGREGATION OF DUTIES

There is typically an inherent problem with segregating duties over accounting transactions in a small organization such as the Foundation. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis.

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

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 component unit 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. Our consideration of the internal control over

financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 grant 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
August 11, 2006