

CHEVY CHASE VILLAGE

REPORT ON AUDIT OF
FINANCIAL STATEMENT

FOR THE YEAR ENDED
JUNE 30, 2007

No extracts from this report may be published without written consent.

Stegman & Company

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INDEPENDENT AUDITORS' 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, 2007, and for the year then ended, which comprise Chevy Chase Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Chevy Chase Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and governmental funds of Chevy Chase Village at June 30, 2007, 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 7, and budgetary comparison schedules found on pages 22 through 28, 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.

Stegman & Company

Baltimore, Maryland
October 17, 2007

CHEVY CHASE VILLAGE

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007 AND 2006

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, 2007.

Financial Summary

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

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Cash, investments and receivables	\$ 3,873	\$ 3,463
Capital assets, net of depreciation	<u>2,207</u>	<u>2,183</u>
	<u>6,080</u>	<u>5,646</u>
<u>Liabilities</u>		
Payables and other current obligations	\$ 167	\$ 184
Long term obligations	<u>144</u>	<u>122</u>
	<u>311</u>	<u>306</u>
<u>Net assets</u>		
Investment in capital assets - net of related debt	2,207	2,183
Unrestricted net assets	<u>3,562</u>	<u>3,157</u>
<u>Total net assets</u>	<u>\$ 5,769</u>	<u>\$ 5,340</u>

The amounts reported as "Unrestricted Net Assets" in the Statement of Net Assets are approximately \$520,000 and \$566,000 higher than the amount reported as "Unreserved and Undesignated Fund Balance" in the Governmental Funds Balance Sheet in 2007 and 2006, respectively. This occurs because of the differences in the revenue and expense recognition principles found in accounting principles generally accepted in the United States ("GAAP") and traditional non-GAAP budgetary accounting.

Financial operations during FY 2007 produced results substantially more favorable than had been anticipated at the time of adoption of the FY 2007 budget. A comparison of budget versus actual, using non-GAAP budgetary accounting is summarized below and in detail on page 22. Changes to the Unreserved Fund Balance is the operational milestone the Village uses to assess year-to-year fiscal stability.

Schedule of Revenue and Expenses - Budget and Actual

(in thousands)

	Final Budget	Actual	Variance Positive/ (Negative)
Revenue	\$ 3,344	\$ 4,091	\$ 747
Expenditures	<u>3,865</u>	<u>3,640</u>	<u>225</u>
Excess (deficiency) of revenue over expenditures	<u>\$ (521)</u>	<u>\$ 451</u>	<u>\$ 972</u>

Overview of the Financial Statements

GASB 34 introduced governments to full accrual accounting, including the effects of recognizing depreciation and long-term obligations in the Statement of Activities and the effect of these changes in the Statement of Net Assets. The full-accrual (GAAP) statements are presented on pages 8 and 9 and the reconciliation to the traditional non-GAAP statements are presented on pages 11 and 13. These reconciliations present Net Assets adjusted for the changes resulting from including fixed assets, taxes receivable and long-term obligations in the Statement of Net Assets. The reconciliations also detail the effects on revenue and expenses as the result of a full accrual presentation.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to Financial Statements are an integral part of the basic financial statements and can be found on pages 14 to 21.

Village Operations

The Statement of Activities (page 9) presents the change in the Village's Net Assets during the most recent fiscal year measured on the full accrual basis of accounting. Essentially, all changes in net assets are reported as soon as the underlying event that gives 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 (eg., uncollected taxes and earned, but unused, vacation leave). These statements record an expense for depreciation but outlays for capital items are reflected in the balance sheet (Statement of Net Assets).

Change in Net Assets

(in thousands)

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 213	\$ 257
Operating grants and contributions	<u>249</u>	<u>255</u>
	<u>462</u>	<u>512</u>
General revenues:		
Property, income, highway user and taxes levied for general purposes	3,448	3,634
Miscellaneous	18	27
Unrestricted investment earnings	<u>159</u>	<u>77</u>
Total revenues	<u>3,625</u>	<u>3,738</u>
	<u>4,087</u>	<u>4,250</u>
Expenses		
Police and communications	1,114	1,178
Public works, parks and recreations	1,511	1,360
Administration and special projects	<u>1,033</u>	<u>772</u>
Total expenses	<u>3,658</u>	<u>3,310</u>
Increase in net assets	429	940
Net assets - beginning of year	<u>5,340</u>	<u>4,400</u>
Net assets - end of year	<u>\$ 5,769</u>	<u>\$ 5,340</u>

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's net assets at June 30, 2007 totalled \$5.769 million which included capital assets of \$2.207 million. The capital assets are presented at cost less the accumulated depreciation and reduced by any unpaid debt incurred to acquire the asset. Capital assets include property, buildings and improvements, furniture and equipment, and vehicles. An asset is capitalized if it has a cost in excess of \$1,000 and a useful life greater than one year. The Village infrastructure which is comprised of the existing streets and sidewalks is not capitalized and, as such, does not appear as a component of net assets. When GASB 34 was implemented, management determined that the expense involved in determining the carrying values for infrastructure assets was not cost effective. GASB 34 permits this option so long as the Village has a regularly scheduled maintenance program which sustains the operational condition of infrastructure assets. Future infrastructure additions are required to be capitalized and depreciated. Included in the balance of the net assets is \$3.562 million representing the unrestricted resources available to the Village.

Capital Assets - at cost
(in thousands)

	<u>2007</u>	<u>2006</u>
Land	\$ 314	\$ 314
Building and improvements	2,536	2,499
Police vehicles and equipment	534	530
Public works vehicles and equipment	458	396
Furniture and equipment	<u>275</u>	<u>257</u>
	4,117	3,996
Less: accumulated depreciation	<u>(1,910)</u>	<u>(1,813)</u>
Total Capital Assets	<u>\$ 2,207</u>	<u>\$ 2,183</u>

Major capital asset additions during the year ending June 30, 2007 included the following:

- Purchase of a new truck and a new leaf vacuum for Public Works
- Purchase of a new cruiser and related equipment for the Police Department
- Purchase and installation of a new security camera system in the buffer zone
- Major renovations to the former administrative area in the Village Hall

Fund Accounting and Budgets

The Village's General 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.

At its annual meeting the Village adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget. The budget to actual comparisons are presented by department on pages 23 to 28. The financial statements for the General Fund are presented on pages 10 and 12.

The General Fund is the operating fund for Chevy Chase Village. At June 30, 2007, the Village's General Fund reported an ending fund balance of \$3.042 million. The fund balance is unreserved and undesignated which means it is available for spending at the Village's discretion. As a measure of the General Fund's liquidity, it may be useful to compare the total fund balance to total expenditures. The current fund balance is 83.2% of current years expenditures. The fund balance at June 30, 2006 was 79.5% of 2006 expenditures.

The balance of Chevy Chase Village's General Fund increased by \$451 thousand in 2007. The 2007 budget had anticipated using \$521 thousand of the fund surplus. The actual result of operations was nearly \$972 thousand better than the initial forecast. Key factors contributing to this difference were:

- Income tax revenues were nearly \$725 thousand more than projected.
- Police department expenditures were \$86 thousand less than budget, primarily due to unfilled positions.
- Special projects were nearly \$83 thousand below expectation primarily because certain projects which were budgeted for 2007 and begun in this year were not completed during the year. A portion of those unspent budget requests are expected to be appended to the 2008 budget.

Economic Factors and the 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. The State of Maryland is realizing significant growth in real property assessments and this trend has impacted the Village's property tax revenues. Fiscal year 2007's property tax revenues were 6.4% greater than fiscal 2006. Fiscal 2008's property tax revenues are budgeted at 0.15 % greater than 2007's actual property tax revenues.

Income tax revenues are much more variable than the property taxes. While the property tax base is quite steady, the income tax revenues are impacted by the tax liability of the residents and can be impacted as residents move into and out of the Village. Income tax revenues in 2007 were 45% higher than the budget but were only 4% higher than 2006's collections. Income tax revenues for 2008 are budgeted as \$174,000 or 7.5% less than 2007 actual receipts.

For 2008, the Village budget anticipates the use of \$186,000 of reserves to satisfy the projected deficit between revenues and expenditures. A portion of the projected deficit arises from the expense incurred to complete projects which were budgeted and begun in the prior fiscal year but were not completed by year end.

In addition to the cost of normal operations, which is expected to increase 9.6% to \$3.79 million, the Village is pursuing special projects including the continuation of the payments to Montgomery County for the Wohlfarth property, possible modifications to the interior of the Village Hall, the development, in conjunction with consultants, of new building regulations and an assessment of the Village government's organizational structure and staffing needs. Long range plans for Village improvements include projects under consideration, in evaluation for feasibility or in the engineering design phase. They include development work with the Maryland State Highway Administration for a pedestrian walkway along Brookeville Road, the evaluation of the communications infrastructure and street light improvements.

Requests for Information

This financial report is designed to provide a general overview of Chevy Chase Village's finances for any interested party. 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 inquiries can be sent via e-mail to ccv@montgomerycountymd.gov.

CHEVY CHASE VILLAGE
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 206,875
Investments	2,838,624
Due from other governments	819,738
Other receivables	8,149
Capital assets, net	<u>2,207,537</u>
Total assets	<u>6,080,923</u>
LIABILITIES	
Accounts payable	34,797
Accrued salaries	49,727
Damage deposits	1,855
Non-current liabilities:	
Due within one year	80,600
Due in more than one year	<u>144,544</u>
Total liabilities	<u>311,523</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,207,537
Unrestricted	<u>3,561,863</u>
TOTAL NET ASSETS	<u><u>\$ 5,769,400</u></u>

See accompanying notes.

CHEVY CHASE VILLAGE

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Police services	\$ 800,114	\$ 76,838	\$ 87,708	\$ -	\$ (635,568)
Communications	314,217	-	-	-	(314,217)
Public works	820,972	1,855	143,755	-	(675,362)
Administration	751,689	45,095	-	-	(706,594)
Facilities, infrastructure, and equipment	689,827	89,255	17,664	-	(582,908)
Special projects	280,827	-	-	-	(280,827)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,657,646	\$ 213,043	\$ 249,127	\$ -	(3,195,476)
General revenues:					
Taxes:					
Property - levied for general purposes					1,021,256
Income taxes					2,320,470
Shared taxes					105,837
Miscellaneous					17,696
Unrestricted investment earnings					159,550
Total general revenues and special items					<u>3,624,809</u>
CHANGE IN NET ASSETS					429,333
NET ASSETS, BEGINNING OF YEAR					<u>5,340,067</u>
NET ASSETS, END OF YEAR					<u>\$ 5,769,400</u>

See accompanying notes.

CHEVY CHASE VILLAGE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General Fund</u>
ASSETS	
ASSETS	
Cash and cash equivalents	\$ 206,875
Investments	2,838,624
Due from other governments	819,738
Other receivables	<u>8,149</u>
TOTAL ASSETS	<u>\$ 3,873,386</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	34,797
Accrued salaries	49,727
Damage deposits	1,855
Deferred income tax revenue	<u>744,569</u>
Total liabilities	<u>830,948</u>
FUND BALANCE	
Unreserved - undesignated	<u>3,042,438</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,873,386</u>

See accompanying notes.

CHEVY CHASE VILLAGE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balance - governmental funds (page 10)	\$ 3,042,438
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 \$4,117,684 and the accumulated depreciation is \$1,910,147.	2,207,537
Deferred revenues are recorded on the modified accrual basis.	744,569
Non-current liabilities are not reported as liabilities in the governmental funds.	<u>(225,144)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (page 8)	<u>\$ 5,769,400</u>

CHEVY CHASE VILLAGE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>
REVENUES	
Taxes - income and property	\$ 3,345,615
Taxes - state and county shared revenues	249,592
Fees, licenses and permits	53,106
Fines and forfeitures	13,078
Investment earnings	159,550
Federal and state police grants	87,708
Contracted police services	65,310
Rent	89,255
Miscellaneous	<u>27,654</u>
Total Revenues	<u>4,090,868</u>
EXPENDITURES	
Police services	771,957
Communications	309,517
Public works	819,407
Administration	739,443
Facilities, infrastructure and equipment	681,502
Special projects	<u>318,233</u>
Total Expenditures	3,640,059
EXCESS OF REVENUES OVER EXPENDITURES	450,809
FUND BALANCE - BEGINNING OF YEAR	<u>2,591,629</u>
FUND BALANCE - END OF YEAR	<u>\$ 3,042,438</u>

See accompanying notes.

CHEVY CHASE VILLAGE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO
THE STATEMENT OF ACTIVITIES
JUNE 30, 2007

Total net change in fund balance - governmental funds (page 12)	\$ 450,809
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital assets in governmental funds are expenditures. In the statement of Activities, instead of expense, the cost outlays are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$181,494) exceeds depreciation expense (\$156,932) in the period.	24,562
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 deferred state income tax reserve..	(3,889)
Expenses for compensated absences reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in governmental funds.	<u>(42,149)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 9)	<u>\$ 429,333</u>

See accompanying notes.

CHEVY CHASE VILLAGE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chevy Chase Village conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to local government. 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 nonfiduciary 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 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 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.

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 services, communications, public works, administration, facilities and related infrastructure and equipment and special projects. These activities are financed primarily by income taxes, 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 these estimates.

Assets, Liabilities and Net Assets or Equity

Cash, 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 bank-issued certificates of deposit.

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 greater than one year. Such assets are valued at historical or estimated historical cost if actual cost 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 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, 2007, the liability to the Village employees for accrued annual and sick leave was \$225,144 based on the wage rates in effect during the fiscal year. Accumulated leave 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-employment benefits to its employees.

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, 2007.

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash on Hand

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

Deposits

At year-end, the carrying amount of the Village's deposit was \$206,875 and the bank balance was \$405,979. The deposits of the Village were not exposed to custodial credit risk at June 30, 2007. 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 \$332,748 in repurchase agreements, \$332,748 in underlying securities was held by Chevy Chase Bank in the Village's name.

Reconciliation of cash, cash equivalents and Investments as Shown on the Statement of Net Assets:

Cash on hand	\$ 300
Carrying amount of deposits	<u>206,575</u>
Total	206,875
Carrying amount of investments	<u>2,838,624</u>
Total cash, cash equivalents and investments per Statement of Net Assets	<u>\$ 3,045,499</u>

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 generally to one year or less. 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 investment income includes the following for the year ended June 30, 2007:

Net interest and dividends	<u>\$ 159,550</u>
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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 Government 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 AAA 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 US 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 or a portion of the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2007, all of the Village's investments were insured or registered, invested in US Treasury securities, invested in MLGIP or were collateralized by US securities which were held by the Village's agent in the Village's name.

3. 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 nondeductible voluntary contributions of up to 10% of their annual compensation to their account balance. Voluntary employee contributions are 100% vested and employer contributions vest at the following rate:

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

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

Total Village contributions were \$118,765 for the year ended June 30, 2007.

4. 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, 2007, employee contributions to the plan totaled \$15,271.

5. 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, 2007 was \$0.123 per \$100 of assessed value. The personal property tax rate was \$0.66 per \$100 of assessed value. Real and personal property taxes are billed and collected by Montgomery County and remitted to the Village.

6. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Cost			
	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions or</u> <u>Transfers Out</u>	<u>Balance</u> <u>June 30, 2007</u>
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	37,457	-	1,619,181
Office furniture and equipment	256,895	17,935	-	274,830
Police vehicles and equipment	529,847	38,173	34,005	534,015
Public works -				
Vehicles and equipment	365,127	48,030	26,057	387,100
Parks and recreation -				
Vehicles and equipment	30,997	39,900	-	70,897
	<u>3,996,251</u>	<u>181,495</u>	<u>60,062</u>	<u>4,117,684</u>
Less accumulated depreciation	<u>1,813,277</u>	<u>156,932</u>	<u>60,062</u>	<u>1,910,147</u>
Net capital assets	<u>\$ 2,182,974</u>	<u>\$ 24,563</u>	<u>\$ -</u>	<u>\$ 2,207,537</u>

7. NON-CURRENT LIABILITIES

The following summarizes the changes in non-current liabilities for the year ended June 30, 2007. The Village policy is to pay the eligible employee one hour wages for each three hours of accumulated sick leave.

	Balance		Balance	Due Within
	<u>June 30, 2006</u>	<u>Increase</u>	<u>June 30, 2007</u>	<u>One Year</u>
Compensated Absences				
Accrued sick leave	\$ 82,477	\$ 10,756	\$ 93,233	\$ 19,100
Accrued vacation payroll	<u>100,519</u>	<u>31,392</u>	<u>131,911</u>	<u>61,500</u>
Total	<u>\$ 182,996</u>	<u>\$ 42,148</u>	<u>\$ 225,144</u>	<u>\$ 80,600</u>

8. 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, 2007, the Village paid premiums of \$30,001 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.

9. 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. Only Martin's Addition, Chevy Chase View, and Section 3 of the Village of Chevy Chase renewed the contracts for the period of July 1, 2006 through June 30, 2007.

10. DEFERRED INCOME TAX REVENUE

At June 30, 2007, Chevy Chase Village was advised by the State of Maryland that \$805,007 of the Local Tax Reserve Fund was allocable to Chevy Chase Village. In accordance with the provision of Government Accounting Standards Board ("GASB") 33 regarding the accounting and reporting of nonexchange transactions, the Village recorded income and a receivable from the State of \$60,437 since it was available for the satisfaction of current liabilities. The balance of the receivable of \$744,570 has been recorded as deferred income tax revenue. This deferred amount has been reflected as an increase in the entity-wide statements in accordance with full accrual accounting.

11. WOHLFARTH PROPERTY

On August 12, 2002, the Village entered into a memorandum of understanding with Montgomery County (the "County") and the Maryland-National Capital Park Planning Commission (the "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 2007.

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 SUPPLEMENTARY INFORMATION

CHEVY CHASE VILLAGE

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Property taxes	\$ 998,154	\$ 998,154	\$ 1,021,256	\$ 23,102
Income taxes	<u>1,600,000</u>	<u>1,600,000</u>	<u>2,324,359</u>	<u>724,359</u>
Total taxes	2,598,154	2,598,154	3,345,615	747,461
Intergovernmental assistance:				
County reimbursements - duplication of services	102,362	102,362	105,837	3,475
Highway user distributions	139,050	139,050	143,755	4,705
State Police grants	<u>94,412</u>	<u>94,412</u>	<u>87,708</u>	<u>(6,704)</u>
Total intergovernmental assistance	335,824	335,824	337,300	1,476
Other income				
Contracted police services	78,720	78,720	65,310	(13,410)
Investment income	97,377	97,377	159,550	62,173
Building rent	87,275	87,275	89,255	1,980
Other income	<u>146,821</u>	<u>146,821</u>	<u>93,838</u>	<u>(52,983)</u>
Total other income	410,193	410,193	407,953	(2,240)
Total operating revenues	<u>3,344,171</u>	<u>3,344,171</u>	<u>4,090,868</u>	<u>746,697</u>
EXPENDITURES				
Police	858,138	858,138	771,957	86,181
Communications	312,910	312,910	309,517	3,393
Public works	845,315	844,815	819,407	25,408
Administration	623,439	740,939	739,443	1,496
Facilities, infrastructure and equipment acquisition	619,689	707,189	681,501	25,688
Special projects	<u>166,500</u>	<u>400,960</u>	<u>318,233</u>	<u>82,727</u>
Total expenditures	<u>3,425,991</u>	<u>3,864,951</u>	<u>3,640,058</u>	<u>224,893</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>\$ (81,820)</u>	<u>\$ (520,780)</u>	<u>\$ 450,810</u>	<u>\$ 971,590</u>

CHEVY CHASE VILLAGE

**SCHEDULE OF POLICE EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Personnel:				
Payroll	\$ 567,493	\$ 567,493	\$ 512,896	\$ 54,597
Employer obligations	71,281	71,281	88,130	(16,849)
Employee benefits	123,813	123,813	84,653	39,160
Organizational development	13,650	13,650	19,202	(5,552)
	<u>776,237</u>	<u>776,237</u>	<u>704,881</u>	<u>71,356</u>
Operations:				
Communications	10,006	10,006	8,659	1,347
Community relations	200	200	50	150
General expenditures	8,225	8,225	4,327	3,898
Insurance	10,400	10,400	9,524	876
Professional services	1,000	1,000	5,110	(4,110)
Service contracts	3,070	3,070	3,123	(53)
Supplies	3,600	3,600	3,278	322
Vehicle operations	38,000	38,000	26,580	11,420
Equipment maintenance and repair	1,400	1,400	1,441	(41)
Computer and technical support	6,000	6,000	4,984	1,016
	<u>81,901</u>	<u>81,901</u>	<u>67,076</u>	<u>14,825</u>
Total Police Expenditures	<u>\$ 858,138</u>	<u>\$ 858,138</u>	<u>\$ 771,957</u>	<u>\$ 86,181</u>

CHEVY CHASE VILLAGE

**SCHEDULE OF COMMUNICATIONS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Personnel:				
Payroll	\$ 205,369	\$ 205,369	\$ 208,656	\$ (3,287)
Employer obligations	16,651	16,651	16,700	(49)
Employee benefits	59,121	59,121	56,881	2,240
Organizational development	2,100	2,100	907	1,193
	<u>283,241</u>	<u>283,241</u>	<u>283,144</u>	<u>97</u>
Operations:				
Communications	7,944	7,944	7,225	719
General expenditures	350	350	167	183
Professional services	1,000	1,000	-	1,000
Service contracts	11,725	11,725	11,675	50
Supplies	1,150	1,150	1,109	41
Equipment maintenance and repair	1,000	1,000	928	72
Computer and technical support	6,500	6,500	5,269	1,231
	<u>29,669</u>	<u>29,669</u>	<u>26,373</u>	<u>3,296</u>
Total Communications Expenditures	<u>\$ 312,910</u>	<u>\$ 312,910</u>	<u>\$ 309,517</u>	<u>\$ 3,393</u>

CHEVY CHASE VILLAGE

**SCHEDULE OF PUBLIC WORKS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Personnel:				
Payroll	\$ 362,004	\$ 362,004	\$ 353,062	\$ 8,942
Employer obligations	45,431	45,431	53,612	(8,181)
Employee benefits	80,018	80,018	77,197	2,821
Contract labor/staff	8,000	8,000	7,975	25
Organizational development	750	750	-	750
Total personnel	496,203	496,203	491,846	4,357
 Operations:				
Communications	3,672	3,672	4,486	(814)
Disposal and recycling	241,490	244,490	231,526	12,964
General expenditures	10,200	10,200	9,076	1,124
Infrastructure:				-
Streets/sidewalks/ storm drainage	34,000	34,000	29,574	4,426
Insurance	6,500	6,500	6,521	(21)
Professional services	250	250	-	250
Weather events	17,000	17,000	20,516	(3,516)
Small tools and shop supplies	3,000	3,000	3,063	(63)
Vehicles - operations	32,000	28,500	21,632	6,868
Equipment maintenance and repair	1,000	1,000	1,167	(167)
Total operations	349,112	348,612	327,561	21,051
 Total Public Works Expenditures	\$ 845,315	\$ 844,815	\$ 819,407	\$ 25,408

CHEVY CHASE VILLAGE

**SCHEDULE OF ADMINISTRATIVE EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Personnel:				
Payroll	\$ 280,817	\$ 303,692	\$ 306,487	\$ (2,795)
Employer obligations	21,461	24,511	22,944	1,567
Employee benefits	66,719	71,294	67,311	3,983
Organizational development	12,750	12,750	14,021	(1,271)
Total personnel	381,747	412,247	410,763	1,484
 Operations:				
Communications	6,732	6,732	6,722	10
Community relations	36,300	36,300	40,348	(4,048)
General expenditures	20,840	20,840	19,962	878
Insurance	16,700	16,700	16,564	136
Professional services	139,600	226,600	226,173	427
Service contracts	6,070	6,070	5,272	798
Supplies	5,000	5,000	4,132	868
Equipment maintenance and repair	2,000	2,000	1,650	350
Computer and technical support	7,850	7,850	7,857	(7)
Furniture and equipment purchases	600	600	-	600
Total operations	241,692	328,692	328,680	12
 Total Administrative Expenditures	\$ 623,439	\$ 740,939	\$ 739,443	\$ 1,496

CHEVY CHASE VILLAGE

**SCHEDULE OF FACILITIES, INFRASTRUCTURE AND EQUIPMENT ACQUISITIONS
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Village Hall:				
General expenses	\$ 5,000	\$ 5,000	\$ 4,466	\$ 534
Insurance	500	500	386	114
Service contracts	18,800	18,800	19,381	(581)
Supplies	3,100	3,100	3,069	31
Utilities	70,646	78,646	75,591	3,055
Equipment repair and maintenance	2,500	2,500	2,211	289
Total Village Hall	<u>100,546</u>	<u>108,546</u>	<u>105,104</u>	<u>3,442</u>
Parks, trees and greenspace:				
Infrastructure	64,000	64,000	60,815	3,185
Professional services	2,500	2,500	-	2,500
Service contracts	3,593	3,593	2,426	1,167
Supplies	200	200	163	37
Tree programs	214,000	289,500	285,197	4,303
Equipment repair and maintenance	1,500	1,500	1,484	16
Total Parks, trees, and greenspace	<u>285,793</u>	<u>361,293</u>	<u>350,085</u>	<u>11,208</u>
Streets, walks and drains	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Building, vehicles and equipment:				
Building				
Public works	2,000	2,000	2,330	(330)
Vehicles				
Police services	21,000	21,000	20,797	203
Public works	60,350	64,350	61,930	2,420
Equipment				
Police services	14,000	14,000	14,464	(464)
Public works	5,000	5,000	5,187	(187)
Parks, trees and greenspace	500	500	-	500
Village building	9,000	9,000	105	8,895
Administration	21,500	21,500	21,500	-
Total Building, vehicles and equipment	<u>133,350</u>	<u>137,350</u>	<u>126,313</u>	<u>11,037</u>
Total Facilities, infrastructure and equipment acquisitions	<u>\$ 619,689</u>	<u>\$ 707,189</u>	<u>\$ 681,502</u>	<u>\$ 25,687</u>

CHEVY CHASE VILLAGE

**SCHEDULE OF SPECIAL PROJECTS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Wohlfarth property	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Village hall improvements	20,000	40,000	37,456	2,544
Brookeville Road planning survey	-	53,000	47,430	5,570
Buffer security system	25,000	40,000	39,900	100
Resident survey and staffing assessment	21,500	21,500	6,737	14,763
Conduit feasibility study	-	19,250	17,724	1,526
Connecticut Avenue study	-	87,500	31,499	56,001
Building regulation	-	39,710	37,487	2,223
TOTAL SPECIAL PROJECTS	<u>\$ 166,500</u>	<u>\$ 400,960</u>	<u>\$ 318,233</u>	<u>\$ 82,727</u>