

**CHEVY CHASE VILLAGE, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2011**

**CHEVY CHASE VILLAGE
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JUNE 30, 2011**

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Independent Auditor's Report

Board of Managers
Chevy Chase Village, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Chevy Chase Village, Maryland (the "Village"), as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Village as listed in the table of contents. These financial statements are the responsibility of Chevy Chase Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Chevy Chase Village as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 33 through 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chevy Chase Village, Maryland's basic financial statements. The supplemental schedules on pages 35 through 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 24, 2011

Kindley & Associates, LLC

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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, 2011. Included are:

- Accounting Methods: Full vs. Modified Accrual
- A summary statement of Net Assets and comparison with prior year
- Revenues and Expenses and comparison with prior year
- Fund Accounting and Budgeting
- Management's discussion
- Additional information

Summary Statement of Net Assets (see page 9 for additional detail)

The comparative data shown below represent the Village's net assets on the full accrual basis for the fiscal years ending June 30, 2010 and June 30, 2011.

| | 2011 | 2010 |
|---|--------------|--------------|
| <u>Assets</u> | | |
| Cash, investments and receivables | \$ 6,568,538 | \$ 8,108,149 |
| Capital assets, net of depreciation | 3,363,898 | 2,106,348 |
| | 9,932,436 | 10,214,497 |
| <u>Liabilities</u> | | |
| Payables and other current obligations | 210,881 | 373,996 |
| Long term obligations | 289,574 | 196,968 |
| | 500,455 | 570,964 |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 3,363,898 | 2,106,348 |
| Restricted for Safe Speed Program approved projects | 2,856,101 | 3,932,569 |
| Unrestricted net assets | 3,211,982 | 3,604,616 |
| | \$ 9,431,981 | \$ 9,643,533 |

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Revenues and Expenses (see page 10 for additional detail)

The comparative data below present the change in the Village's Net Assets resulting from governmental activities during the fiscal years ending June 30, 2010 and June 30, 2011.

| | Governmental Activities | |
|--|-------------------------|-------------|
| | 2011 | 2010 |
| Program revenues | | |
| Charges for services | 224,708 | 198,431 |
| Safe speed program | 2,442,796 | 2,616,748 |
| Operating grants and contributions | 228,947 | 302,287 |
| | 2,896,451 | 3,117,466 |
| General revenues | | |
| Property and income taxes | | |
| levied for general purposes | 2,457,768 | 2,538,691 |
| Safe speed program investment earnings | 8,431 | 11,900 |
| Unrestricted investment earnings | 23,914 | 63,258 |
| | 2,490,113 | 2,613,849 |
| Total revenues | 5,386,564 | 5,731,315 |
| Expenses | | |
| Police and communications | 1,327,020 | 1,366,915 |
| Safe speed program | 1,729,600 | 2,468,570 |
| Public works, parks, and recreation | 1,389,207 | 1,585,171 |
| Administration and special projects | 1,139,766 | 1,439,178 |
| Total expenses | 5,585,593 | 6,859,834 |
| Loss on disposal of fixed assets | (12,523) | - |
| Change in net assets | (211,552) | (1,128,519) |
| Net assets, beginning of year | 9,643,533 | 10,772,052 |
| Net assets, end of year | 9,431,981 | 9,643,533 |

Fund Accounting and Budgeting

The Village uses a General Fund and a Special Revenue Fund. The General Fund is the tax-based operating fund for Chevy Chase Village and is available for spending at the Village's discretion. The Special Revenue Fund derives its income from the *Safe Speed Program* and, consequently, those funds are restricted to expenditures and capital improvements that relate to public safety.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Each fund is controlled by an annual budget that is adopted in April. Budgetary comparison statements have been provided for these funds. The budget-to-actual comparisons are presented by department on pages 33 and 34. A summary comparison of General Funds – budget vs. actual is shown below:

**Schedule of Revenue and Expenses - Budget and Actual
(Modified Accrual Basis)**

| | Final Budget | Actual | Variance Positive / (Negative) |
|-------------------------------------|---------------------|---------------------|--------------------------------------|
| Revenue | \$ 3,318,957 | \$ 2,878,179 | \$ (440,778) |
| Expenditures | 3,940,062 | 3,423,915 | 516,147 |
| Excess of revenue over expenditures | <u>\$ (621,105)</u> | <u>\$ (545,736)</u> | <u>\$ 75,369</u> |

Management's Discussion

The Village enjoys a strong financial position. In recent years the Village has benefited from income from the *Safe Speed Program*, but has had to adjust to declining tax revenues and unanticipated legal expenses. The Village has adjusted expenditures accordingly, and will continue to do so in the coming year. The following sections explain the Village's accomplishments, issues and plans for fiscal 2012 and beyond.

General Fund Operations

Tax Revenues

The Village is dependent on state income tax collections and real property assessments to provide the primary funding for the regular Village operations. These factors, which are beyond the Village's direct control, are quite variable. Although the Village did experience a decline in its real property assessment base, this did not substantially impact the property tax revenue as a result of having adopted the constant yield rate.

Income tax revenues are much more variable than the property taxes. While the property tax base is relatively steady, the income tax revenues are affected by the tax liability of the residents and can also be affected as residents move into and out of the Village. Income tax revenues in fiscal 2011 were 21% lower than the budget and were \$142,593 or 9% lower than fiscal 2010's collections. Income tax revenues for fiscal 2012 are budgeted as \$1,500,000 or almost 6% greater than fiscal 2010's actual receipts.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Overall General Funds Revenues

The general funds budget projected total revenues of \$3,318,957. The Village received \$440,778 less than projected attributable to declines in income tax revenue, a delayed remittance by Montgomery County of the corporate income tax payment, and a decline in the State police grant.

General Fund Expenses

Primarily through deferred salaries from unfilled budgeted positions within the administrative and police departments and operational expenditures that came in lower than budgeted during the course of the fiscal year, the Village was able to reduce its actual expenses by \$516,147. These reductions had no effect on services provided to Village residents. During the course of the fiscal year the Village spent approximately \$285,000 on legal expenses defending a lawsuit concerning a public right-of-way. The lawsuit was settled half way through the fiscal year. In addition to the lawsuit, general legal expenses totaled approximately \$240,000.

Safe Speed Program

The *SafeSpeed* Program began several months into fiscal 2008. The citations collected in fiscal 2011 were \$2,083,703 or a 19% decrease from fiscal 2010. This is due to a number of factors included in the new *SafeSpeed* legislation that went into effect October 2009. The threshold for issuing a citation increased from eleven miles over the speed limit to twelve miles over the speed limit. Also, there has been a tremendous increase in the number of speed cameras operating throughout the state. This has caused a significant increase in driver awareness, which has also contributed to the lower issuance of citations.

If the Village no longer received revenues through the *SafeSpeed* Program, the Village's general funds budget could incur up to \$600,000 in additional expenses currently allocated to the Special Revenue Fund.

Budget Modifications During FY2011

The budget for the fiscal year is approved at the Village's Annual Meeting held the preceding April. As the fiscal year progresses, the budget may be modified by the Board of Managers due to unforeseen events and expenditures. Below are supplemental appropriations approved by the Board of Managers during fiscal year 2011:

| | |
|-----------------------------------|----------------|
| Parks Committee | \$ 10,000 |
| Litigation Reserve | 150,000 |
| Chevy Chase Open Space Demolition | 39,120 |
| Street Maintenance | <u>142,001</u> |
| | \$ 341,121 |

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Capital Assets

The Village's Total Net Assets at June 30, 2011 totaled \$9,431,981 of which \$3,363,898 is invested in capital assets, net of related debt. This represents capital assets presented at cost, less the accumulated depreciation and any unpaid debt incurred to acquire the asset. At June 30, 2011, there was no debt associated with the capital assets. Capital assets include property, buildings and improvements, furniture, infrastructure 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. Refer to footnote 6 for a detailed schedule of capital assets and related depreciation.

The overall decline in net assets in fiscal 2011 primarily reflects the Village's use of cash reserves in funding the fiscal 2011 deficit. This totaled \$222,995 which is not problematic as long as the Village maintains a healthy reserve position.

Major capital asset additions during the year ended June 30, 2011 include the following:

| | |
|--------------------------|----------------|
| ELSAG Tag Reader | \$ 16,000 |
| Brookville Road Sidewalk | 1,258,255 |
| Roadway Repavement | <u>180,747</u> |
| | \$ 1,455,002 |

Next Year

The cost of general operations in fiscal year 2012 is expected to decrease approximately 10% from fiscal 2011 levels to approximately \$3,085,000. These decreased expenditures are attributable primarily to reduced projected costs for legal counsel, tree maintenance and personnel costs. The Village Board and staff have been working together to reduce the use of legal counsel, primarily through the utilization of other resources and efficient use of legal counsel's time. The Village contracted with an independent arborist who was charged with performing a comprehensive review of the Village's maintenance program of trees located in Village parks and public rights-of-way. The results of this review yielded an approximate \$59,000 savings with no expected impact on the health of the Village's urban forest. Two open positions have not been budgeted to be filled in fiscal 2012. These positions were not budgeted as the Village determined that they would not adversely impact Village services. Additionally, fiscal 2012 salaries were held at fiscal 2011 levels.

The Village is pursuing several Capital Projects in fiscal 2012 including the renovation of the Public Works Department's spaces in the bottom level of the Village Hall, including construction of an equipment shelter in the Public Works yard; the development of the Chevy Chase Open Space property (formerly referred to as the Wohlfarth Property); the first phase of a 4-year project to replace Village sidewalks; the acquisition of new police radios; installation of additional streetlights in some locations where none currently exist; and the purchase of a records management system.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Accounting Methods: Full vs. Modified Accrual

In accordance with the financial reporting standards for governments, the Village reports its financial condition and the results of its operations in two formats. The full-accrual format reports, the Statement of Net Assets and the Statement of Activities, are found on pages 9 and 10. The modified accrual format presents the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds on pages 11 and 12. The differences between the reports arise primarily as a result of the treatment of fixed assets, long-term debt, revenue recognition and certain expenses. The two formats are reconciled and the differences are explained in the reconciliations to the right of the statements.

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 15 through 32.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village Manager at 5906 Connecticut Avenue, Chevy Chase, Maryland 20815.

CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2011

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Current Assets | |
| Cash and cash equivalents - unrestricted | \$ 705,383 |
| Cash and cash equivalents - restricted | 158,163 |
| Investments | 5,045,796 |
| Amounts due from other governments | 487,926 |
| Safe Speed program citations receivable, net of allowance | <u>171,270</u> |
| Total Current Assets | <u>6,568,538</u> |
| Noncurrent Assets | |
| Net capital assets | <u>3,363,898</u> |
| Total Noncurrent Assets | <u>3,363,898</u> |
| TOTAL ASSETS | <u>\$ 9,932,436</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable and accrued expenses | \$ 202,783 |
| Amounts held in escrow and deposit | <u>8,098</u> |
| Total Current Liabilities | <u>210,881</u> |
| Noncurrent Liabilities | |
| Compensated absences | <u>289,574</u> |
| Total Noncurrent Liabilities | <u>289,574</u> |
| TOTAL LIABILITIES | <u>500,455</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 3,363,898 |
| Restricted | - |
| Safe Speed Program approved projects | 2,856,101 |
| Unrestricted | <u>3,211,982</u> |
| TOTAL NET ASSETS | <u>9,431,981</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 9,932,436</u> |

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

**CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|-------------------------|--|--|--|---|
| Functions/Programs | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities | |
| Primary Government | | | | | |
| Governmental Activities: | | | | | |
| General government | \$ 777,093 | \$ 224,708 | \$ - | \$ 198,318 | \$ (354,067) |
| Public safety | 1,017,014 | - | 22,275 | - | (994,739) |
| Public works | 937,968 | - | 8,354 | - | (929,614) |
| Communications | 310,006 | - | - | - | (310,006) |
| Safe speed program | 1,729,600 | 2,442,796 | - | - | 713,196 |
| Facilities, infrastructure, and equipment | 451,239 | - | - | - | (451,239) |
| Special projects | 362,673 | - | - | - | (362,673) |
| Total Governmental Activities | 5,585,593 | 2,667,504 | 30,629 | 198,318 | (2,689,142) |
| Total Primary Government | \$ 5,585,593 | \$ 2,667,504 | \$ 30,629 | \$ 198,318 | \$ (2,689,142) |
| General revenues: | | | | | |
| Taxes | | | | | |
| Income taxes | | | | | |
| 1,455,661 | | | | | |
| Property taxes | | | | | |
| 1,002,107 | | | | | |
| Interest and investment earnings | | | | | |
| 32,345 | | | | | |
| Total General Revenues | | | | | |
| 2,490,113 | | | | | |
| Transfers in (out) | | | | | |
| - | | | | | |
| Loss on disposal of fixed assets | | | | | |
| (12,523) | | | | | |
| Change in Net Assets | | | | | |
| (211,552) | | | | | |
| Net Assets, beginning of year | | | | | |
| 9,643,533 | | | | | |
| Net Assets, end of year | | | | | |
| \$ 9,431,981 | | | | | |

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

**CHEVY CHASE VILLAGE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2011**

| | General Fund | Special Revenue Fund | Total Governmental Funds | | |
|---|---------------------|-------------------------|--------------------------------|--|---------------------|
| ASSETS | | | | | |
| Cash and cash equivalents - unrestricted | \$ 705,383 | \$ - | \$ 705,383 | <i>Total Governmental Fund Balances</i> | \$ 5,698,461 |
| Cash and cash equivalents - restricted | - | 158,163 | 158,163 | | |
| Investments | 2,162,829 | 2,882,967 | 5,045,796 | Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds. | (289,574) |
| Due from other funds | 12,860 | - | 12,860 | | |
| Accounts receivable, net of allowances | - | 171,270 | 171,270 | | |
| Accounts receivable - income taxes | 487,926 | - | 487,926 | | |
| TOTAL ASSETS | \$ 3,368,998 | \$ 3,212,400 | \$ 6,581,398 | Deferred revenues are recorded on the modified accrual basis. | 659,196 |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 30,614 | \$ 172,169 | \$ 202,783 | Capital assets used in governmental activities are not financial resources and therefore are not reported on the funds. | 3,363,898 |
| Amounts held in escrow | 8,098 | - | 8,098 | | |
| Due to other funds | - | 12,860 | 12,860 | | |
| Deferred revenues | 487,926 | 171,270 | 659,196 | <i>Net Assets of Governmental Activities</i> | \$ 9,431,981 |
| TOTAL LIABILITIES | 526,638 | 356,299 | 882,937 | | |
| FUND BALANCES | | | | | |
| Restricted - Safe Speed Program approved projects | - | 2,856,101 | 2,856,101 | | |
| Unassigned | 2,842,360 | - | 2,842,360 | | |
| TOTAL FUND BALANCES | 2,842,360 | 2,856,101 | 5,698,461 | | |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 3,368,998 | \$ 3,212,400 | \$ 6,581,398 | | |

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

CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|---|---------------------|-------------------------|--------------------------------|
| Revenues | | | |
| Taxes | \$ 2,416,610 | \$ - | \$ 2,416,610 |
| Safe speed citations | - | 2,083,703 | 2,083,703 |
| Intergovernmental | 206,672 | - | 206,672 |
| Fees, licenses, and permits | 61,056 | - | 61,056 |
| Rents | 82,369 | - | 82,369 |
| Interest income | 23,914 | 8,431 | 32,345 |
| Miscellaneous | 87,558 | - | 87,558 |
| Total Revenues | <u>2,878,179</u> | <u>2,092,134</u> | <u>4,970,313</u> |
| Expenditures | | | |
| General government | 696,569 | 68,828 | 765,397 |
| Public safety | 742,639 | 1,370,742 | 2,113,381 |
| Public works | 815,884 | 78 | 815,962 |
| Communications | 310,726 | 97,157 | 407,883 |
| Facilities, infrastructure, and equipment | 442,174 | 19,732 | 461,906 |
| Special projects | 362,673 | 94,330 | 457,003 |
| Capital projects | 37,250 | 78,733 | 115,983 |
| Capital outlay | 16,000 | 1,439,002 | 1,455,002 |
| Total Expenditures | <u>3,423,915</u> | <u>3,168,602</u> | <u>6,592,517</u> |
| Excess (deficiency) of revenues over expenditures | (545,736) | (1,076,468) | (1,622,204) |
| Other financing sources (uses) | - | - | - |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (545,736) | (1,076,468) | (1,622,204) |
| Fund balance, beginning of year | <u>3,388,096</u> | <u>3,932,569</u> | <u>7,320,665</u> |
| Fund balance, end of year | <u>\$ 2,842,360</u> | <u>\$ 2,856,101</u> | <u>\$ 5,698,461</u> |

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

| | |
|---|---------------------|
| <i>Net Change in Fund Balances - Total Governmental Funds</i> | \$ (1,622,204) |
| Increase in Safe Speed Program uncollected revenues are current financial resources and are not reported as revenue in the funds. | 123,950 |
| Fixed assets are not recorded in the governmental funds; therefore, loss on disposal is not reflected. | (12,523) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 1,270,073 |
| Changes in deferred state income taxes do not provide current financial resources and are not reported as revenue in the funds. | 41,158 |
| Difference between accrual and modified accrual in accounting for compensated absences. | (12,006) |
| <i>Change in Net Assets of Governmental Activities</i> | <u>\$ (211,552)</u> |

**CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2011**

ASSETS

| | |
|----------------------------|---------------------|
| Cash and cash equivalents | \$ - |
| Investments, at fair value | 1,544,710 |
| Due from other funds | - |
| Total assets | <u>\$ 1,544,710</u> |

LIABILITIES

| | |
|-------------------|----------|
| Accounts payable | <u>-</u> |
| Total liabilities | <u>-</u> |

NET ASSETS

| | |
|------------------------------------|---------------------|
| Held in trust for pension benefits | <u>1,544,710</u> |
| Total net assets | <u>\$ 1,544,710</u> |

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

**CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2011**

ADDITIONS

| | |
|---|----------------|
| Contributions | |
| Employer | \$ 208,761 |
| Plan member | - |
| Total contributions | <u>208,761</u> |
| Investment Income | |
| Net increase in fair value of investments | 146,713 |
| Interest | - |
| Net investment income | <u>146,713</u> |
| Total additions | 355,474 |

DEDUCTIONS

| | |
|---|----------------------------|
| Distributions | (14,000) |
| Administrative expenses | (115) |
| | <u>(14,115)</u> |
| Net increase | 341,359 |
| Net assets held in trust for pension benefits, July 1, 2010 | <u>1,203,351</u> |
| Net assets held in trust for pension benefits, June 30, 2011 | <u><u>\$ 1,544,710</u></u> |

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Chevy Chase Village, Maryland (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 accounting policies of Chevy Chase Village conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

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

Basis of Presentation – Fund Accounting

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

The Village’s funds are grouped into two broad fund categories.

The Village’s governmental funds include the General Fund and the Special Revenue Fund. The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. The Special Revenue Fund is used to account for all financial resources pertaining to the Village’s Safe Speed program.

The Village currently has one Fiduciary Fund. The Pension Trust Fund is used to account for defined contribution plan assets held by the Village in a fiduciary capacity. This fund is accounted for and reported in a manner similar to proprietary funds since capital maintenance is critical.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. The Village has no business-type activities.

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

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

Separate financial statements are provided for governmental funds, proprietary funds, if any, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Financial Statements

Fund financial statements report detailed information about the Village. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

Village activities pertaining to general government, public safety, public works, communication, facilities, infrastructure, parks and recreation and general administrative services are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The major governmental funds are:

- General Fund – This is the Village’s primary operating fund. It is used to account for all financial resources except for those required to be accounted for in another fund.
- Special Revenue Fund – This fund is used to account for all financial resources pertaining to the Village’s Safe Speed program.

Fiduciary Fund – Pension Trust Fund

The Village currently has one Fiduciary Fund. The Pension Trust Fund is used to account for defined contribution plan assets held by the Village in a fiduciary capacity. This fund is accounted for and reported in a manner similar to proprietary funds since capital maintenance is critical.

Revenue Recognition

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

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

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Expenditure Recognition

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

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

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments," investments held at June 30, 2011 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Accounts Receivable – Net of Allowances

Receivables at June 30, 2011 consist of safe speed camera citations totaling \$519,253. The Village recognizes an allowance for doubtful accounts to ensure that speed camera receivables are not overstated due to un-collectability. At June 30, 2011, the allowance for doubtful accounts in the special revenue fund is \$347,983. The resulting accounts receivable – net of allowances at June 30, 2011 is \$171,270.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventory of Supplies

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Village as a whole with an acquisition cost or donated value of \$1,000 or more. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. Intangible assets are recognized if they are identifiable, and amortized over their useful lives if they do not have indefinite useful lives.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 40 years; improvements/infrastructure, 40 years; vehicles and equipment, 3 to 8 years; furniture and equipment, 8 years.

Restricted Reserves

The Village generally uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available; however, some public safety expenditures are paid for with unrestricted funds first, setting aside some restricted special revenue resources for larger public safety projects.

Interest Expense

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

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensated Absences

The Village allows employees to accumulate unused vacation that is payable to the employee at retirement or termination. The Village also allows 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, 2011, the liability to Village employees for accrued annual and sick leave was \$289,574 based on the wage rates in effect during the fiscal year.

Post-Employment Benefits

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

Estimates

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

Deferred Income Tax Revenue

At June 30, 2011, the Village was advised by the State of Maryland that \$487,926 of the Local Tax Reserve Fund was allocable to the Village. In accordance with the provision of GASB No. 33, the Village recorded receivable and deferred income tax revenue in the amount of \$487,926 in the fund financial statements. The change in this amount has been reflected as income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

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

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

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

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

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

Governmental Fund Balances

On July 1, 2010, the Village adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which significantly changed the reporting of fund balance in the balance sheets of governmental type funds.

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Village Charter, Village Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Village Council, the Village’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Village’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Village Charter, the Village Manager and the Village council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Village considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Village also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

The Village prepares an annual operating budget, on a modified accrual basis for all Village funds, consistent with generally accepted accounting principles. The Board of Managers may subsequently amend the budget. The budget was amended during fiscal year 2011. For day-to-day management control, expenditures may not exceed budget at the department level.

NOTE 3 – DEPOSITS AND INVESTMENTS

On July 1, 2010, the Village adopted GASB 59, *Financial Instruments Omnibus*, which updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

Deposit Policies

The Village is authorized to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments. By arrangement with the banks, the Village's deposits in excess of the FDIC insured limit are collateralized at 102% by investments in U.S. Treasuries. The Village has contractual arrangements with the banks for funds to be transferred daily from investment in a repurchase agreement to cover checks as presented. For the Village's repurchase agreements, collateralization is provided at the rate of 102% by investments in a combination of U.S. Treasuries, FNMA and FHLMC mortgage backed securities held by the bank in the Village's name.

The Village's deposits are insured by FDIC or secured by a surety bond or collateralized with securities held by the Village, its agent, or by the pledging financial institution's trust department or agent in the name of the Village.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Deposits

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

At year-end, the carrying amounts of the Village's deposits were \$863,246 and the bank balances totaled \$996,575. Of the bank balances, the entire amount was either insured by Federal Depository Insurance Corporation (FDIC), or balances exceeding FDIC limits are secured by a surety bond or collateral valued 102 percent of principal and accrued interest. Collateral is to be held by the Village, its agent, or by the pledging institution's trust department or agent in the name of the Village. At year end, the Village's bank balances were not exposed to any custodial credit risk because all deposits were fully collateralized.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Village policy does not allow investments in commercial paper or corporate bonds, except under state law in the state investment pool.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Village's policy provides that investments generally be limited to those with maturities of one year or less.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. Village policy states that, except for obligations of the United States, Village funds in any one institution shall not exceed the lesser of one million dollars or one half of the total of Village funds. Village policy also allows a maximum of \$1,500,000 to be invested in MLGIP.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities in the possession of an outside party. At June 30, 2011, 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.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

Generally, the Village’s investing activities are managed by the Village manager with approval by the Board of Managers. Investing is performed in accordance with investment policies adopted by the board of managers complying with State Statutes and the Village Charter. The Village funds may be invested in:

- the Maryland Local Government Investment Pool (MLGIP)
- repurchase agreements collateralized by U.S. Treasury securities
- U.S. Government Agency and U.S. Government-sponsored instrumentalities
- secured certificates of deposit issued by Maryland banks
- money market funds whose portfolio is operated consistent with the SEC rule 2a-7 and that invest only in obligations that a federal agency or instrumentality issues

Investments

At June 30, 2011, the Village had the following investments:

| <u>Types of Investments</u> | <u>Fair Value/ Carrying Amount</u> | <u>Cost</u> | <u>Average Credit Quality/ Ratings</u> |
|--------------------------------------|--|---------------------|--|
| MLGIP - unrestricted | \$ 207,289 | \$ 207,289 | AAAm |
| MLGIP - restricted | 434,042 | 434,042 | AAAm |
| Total MLGIP | 641,331 | 641,331 | |
| Certificates of Deposit issued by: | | | |
| Chevy Chase Bank - CDAR | 552,108 | 552,108 | N/A |
| Chevy Chase Bank - CDAR SC | 700,155 | 700,155 | N/A |
| Frederick County Bank | 250,000 | 250,000 | N/A |
| Baltimore County Savings Bank | 150,000 | 150,000 | N/A |
| Midstate Federal Savings & Loan | 250,000 | 250,000 | N/A |
| Monument Bank | 250,000 | 250,000 | N/A |
| OBA Bank | 250,000 | 250,000 | N/A |
| SunTrust Bank | 250,000 | 250,000 | N/A |
| Total Certificates of Deposit | 2,652,263 | 2,652,263 | |
| Treasury Bills | 1,748,770 | 1,748,770 | N/A |
| Money Market | 3,432 | 3,432 | |
| | <u>\$ 5,045,796</u> | <u>\$ 5,045,796</u> | |
| Pension Trust Fund - mutual funds | <u>\$ 1,544,710</u> | <u>\$ 1,544,710</u> | N/A |

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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

NOTE 4 – RECEIVABLES

Accounts receivable are comprised of the following as of June 30, 2011:

| | |
|--------------------|-------------------|
| Income taxes | \$ 487,926 |
| Safe Speed Program | 171,270 |
| Total | <u>\$ 659,196</u> |

NOTE 5 – PROPERTY TAX

The Board of Managers holds an annual public hearing no later than May 31, for the residents to voice their opinion on the proposed real and property tax rates and annual budget. After the hearing, the board sets the tax rate by ordinance by May 31. Montgomery County (the County) tax offices are informed of the approved rate and County tax bills have these amounts included on them. Property taxes are levied as of July 1, on property values as of the same date. The rates of levy cannot exceed the constant yield tax rate without public notice and only after public hearings as determined by the Maryland Department of Assessments and Taxation. Village residents pay all property taxes directly to the County. The County then forwards all payments made to the Village office. When taxes are overdue, a lien is placed against the property. The Village believes all property taxes to be fully collectible and makes no allowance for uncollectible property taxes. The Village's real property and personal property tax rates for the year ended June 30, 2011 was \$.1005 per \$100 of assessed value and \$.66 per \$100 of assessed value respectively.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2011 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|------------------------------------|----------------------|--------------|-----------|-------------------|
| Governmental activities: | | | | |
| Not being depreciated: | | | | |
| Brookville land | \$ 313,891 | \$ - | \$ - | \$ 313,891 |
| Subtotal | 313,891 | - | - | 313,891 |
| Depreciable capital assets: | | | | |
| Street and sidewalk improvements | 7,200 | 1,439,002 | - | 1,446,202 |
| Village building and improvements | 2,571,458 | - | - | 2,571,458 |
| Furniture and fixtures | 300,883 | - | - | 300,883 |
| Vehicles and equipment | 1,330,943 | 16,000 | 676,440 | 670,503 |
| Subtotal | 4,210,484 | 1,455,002 | 676,440 | 4,989,046 |
| Total capital assets | 4,524,375 | 1,455,002 | 676,440 | 5,302,937 |
| Accumulated depreciation: | | | | |
| Street and sidewalk improvements | 450 | 18,168 | - | 18,618 |
| Village building and improvements | 1,120,343 | 46,643 | - | 1,166,986 |
| Furniture and fixtures | 280,107 | 11,709 | - | 291,816 |
| Vehicles and equipment | 1,017,127 | 108,409 | 663,917 | 461,619 |
| Subtotal, accumulated depreciation | 2,418,027 | 184,929 | 663,917 | 1,939,039 |
| Net capital assets | \$ 2,106,348 | \$ 1,270,073 | \$ 12,523 | \$ 3,363,898 |

Depreciation was charged to functions as follows:

| | |
|--|-------------------|
| Government activities: | |
| General government | \$ 58,353 |
| Recreation and culture | 5,816 |
| Public works | 82,500 |
| Public safety | 38,260 |
| Total government activities depreciation expense | <u>\$ 184,929</u> |

As of June 30, 2011, there were no material construction commitments.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – DEFINED CONTRIBUTION PLAN

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

Employees become eligible participants of the defined contribution plan after completing 12 months of employment in which at 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 \$208,761 for the year ended June 30, 2011.

NOTE 8 – DEFERRED COMPENSATION PLAN

The Village offers a deferred compensation plan created in accordance with Internal Revenue Service 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 plan participants and their beneficiaries, and the assets can not be diverted for any other purpose and are not included in the Village's financial statements. The plan is administered by the Hartford Life Insurance Corporation. Employee contributions to the plan for the year ended June 30, 2011 were \$10,958.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 – LONG-TERM LIABILITIES

The Village’s only long-term liabilities relate to accrued sick leave and accrued vacation. The Village policy is to pay employees meeting certain eligibility requirements one hour wages for each three hours of accumulated sick leave. The Village may pay employees for compensatory time. The following summarizes the changes in long-term liabilities for the year ended June 30, 2011.

| <u>Compensated Absences</u> | <u>Balance July 1, 2010</u> | <u>Increase / (Decrease)</u> | <u>Balance June 30, 2011</u> | <u>Due within one year</u> |
|-----------------------------|---------------------------------|----------------------------------|----------------------------------|--------------------------------|
| Accrued sick leave | \$ 113,139 | \$ (317) | \$ 112,822 | \$ - |
| Accrued vacation | 136,634 | 12,671 | 149,305 | - |
| Accrued compensatory time | 27,795 | (348) | 27,447 | - |
| Total | <u>\$ 277,568</u> | <u>\$ 12,006</u> | <u>\$ 289,574</u> | <u>\$ -</u> |

NOTE 10 – CONCENTRATION OF REVENUES

The Village derives most of its revenues from the citizens of the Village and from the Safe Speed program. The Village is located in Montgomery County, Maryland.

NOTE 11 – RISK MANAGEMENT

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

The Village has an insurance agreement with the Local Government Insurance Trust (LGIT), a public entity risk pool. LGIT provides the Village’s property, general, public officials’ legal liability, punitive damage and umbrella insurance coverages.

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

Premiums are charged to the appropriate Village’s General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2011 and the amounts of settlements have not exceeded coverage for each of the past three years. During the year ended June 30, 2011 the Village paid premiums of \$16,625 to the Trust.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – RISK MANAGEMENT - continued

The Village is 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 12 – DEFERRED REVENUE

At June 30, 2011, Chevy Chase Village was advised by the State of Maryland that \$487,926 of the Local Income Tax Reserve Fund was allocable to Chevy Chase Village. In accordance with the provisions of Government Accounting Standards Board ("GASB") 33 regarding the accounting and reporting of nonexchange transactions, the Village recorded a receivable and deferred income tax of this amount. The change in this deferred amount has been reflected as revenue in the entity-wide statements in accordance with full accrual accounting.

In FY2008, Chevy Chase Village instituted a program to enforce compliance with the posted speed limits in the Village. The program utilizes photographic equipment to capture the license number of vehicles determined to be in violation of the posted limits. Safe Speed revenues are recognized when received.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14 – CHEVY CHASE OPEN SPACE

On August 12, 2002, the Village entered into a memorandum of understanding with Montgomery County (the “County”) and the Maryland-National Capital Park Planning Commissions (the “Commission”) for the purpose of acquiring property immediately adjacent to the Village. This property known as Chevy Chase Open Space is to be maintained and operated as a public park. The Village committed to contributing \$1,250,000 to the cost of the acquisition. Approximately \$311,600 of that amount was provided by Program Open Space Funds which the Village received from the County. In addition to the \$200,000 paid in fiscal year 2003, the Village contributed \$100,000 per year through 2009 and the balance of \$38,495 was paid on July 15, 2010.

The Commission and the Village are responsible for developing a management plan for the property. The property has been annexed by the Village, and the Village is responsible for municipal services to the property and the Commission handles 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 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.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

The Village is a defendant in two lawsuits at June 30, 2011, which management is defending. No contingency has been established because neither the outcome of the cases nor the amount of an award, if any, can be determined. The Village is defending these matters.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16 – FUND BALANCE REPORTING

As disclosed in Note 1, the Village adopted the provisions of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances for the Village's governmental funds consisted of the following as of June 30, 2011:

Restricted Fund Balances

All fund balances in the special revenue fund is restricted to public safety purposes. At June 30, 2011, this amount was \$2,856,101.

Unassigned Fund Balances

All fund balances in the general fund is unassigned. At June 30, 2011, this amount was \$2,842,360.

NOTE 17 – SAFE SPEED CAMERA REVENUES

Senate Bill 277, "Vehicle Laws – Speed Monitoring Systems – Statewide Authorization and Use in Highway Work Zones," was effective as of October 1, 2009. This law states:

"For any fiscal year, if the balance remaining from the fines collected by a political subdivision as a result of the violations enforced by speed monitoring systems, after the costs of implementing and administering the systems are recovered ..., is greater than 10% of the total revenues of the political subdivision for the fiscal year, the political subdivision shall remit any funds that exceed 10% of the total revenues to the Comptroller."

As of June 30, 2011, the Village has determined that \$93,801 is due to the State Comptroller as a result of this law.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued in December 2009, effective for financial statements for periods beginning after June 15, 2011.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010, effective for financial statements for periods beginning after June 15, 2012.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, effective for financial statements for periods beginning after December 15, 2011.

Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision – an amendment of GASB Statement No. 53*, issued June 2011, effective for financial statements for periods beginning after June 15, 2011.

The Village will implement these statements as necessary as of their effective dates. While the Village is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Village.

NOTE 19 – SUBSEQUENT EVENTS

Subsequent to June 30, 2011, all of the claims against the Village in one of the two lawsuits involving the Village were dismissed.

CHEVY CHASE VILLAGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - UNAUDITED
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

| | General Fund | | Actual | Variance |
|--|------------------------|---------------------|---------------------|---------------------|
| | Original Budget | Final Budget | | |
| Revenues | | | | |
| Taxes | \$ 2,874,500 | \$ 2,874,500 | \$ 2,416,610 | \$ (457,890) |
| Intergovernmental | 250,500 | 250,500 | 206,672 | (43,828) |
| Interest income | 30,000 | 30,000 | 23,914 | (6,086) |
| Miscellaneous | 163,957 | 163,957 | 230,983 | 67,026 |
| Total Revenues | \$ 3,318,957 | \$ 3,318,957 | \$ 2,878,179 | \$ (440,778) |
| Expenditures | | | | |
| General government | \$ 831,945 | \$ 831,945 | \$ 696,569 | \$ 135,376 |
| Public safety | 852,546 | 852,546 | 758,639 | 93,907 |
| Public works | 866,288 | 866,288 | 815,884 | 50,404 |
| Communications | 440,786 | 440,786 | 310,726 | 130,060 |
| Capital Projects | 42,677 | 42,677 | 37,250 | 5,427 |
| Special projects | 189,000 | 378,120 | 362,673 | 15,447 |
| Facilities, infrastructure, and equipment acquisitions | 517,700 | 527,700 | 442,174 | 85,526 |
| Total Expenditures | \$ 3,740,942 | \$ 3,940,062 | \$ 3,423,915 | \$ 516,147 |
| Excess (deficiency) of revenues over expenditures | \$ (421,985) | \$ (621,105) | \$ (545,736) | \$ 75,369 |

CHEVY CHASE VILLAGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - UNAUDITED
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

| | Special Revenue Fund | | Actual | Variance |
|--|-----------------------------|-----------------------|-----------------------|---------------------|
| | Original Budget | Final Budget | | |
| Revenues | | | | |
| Safe speed citations | \$ 2,000,000 | \$ 1,800,000 | \$ 2,083,703 | \$ 283,703 |
| Interest income | 10,000 | 10,000 | 8,431 | (1,569) |
| Total Revenues | \$ 2,010,000 | \$ 1,810,000 | \$ 2,092,134 | \$ 282,134 |
| Expenditures | | | | |
| General government | \$ 77,698 | \$ 77,698 | \$ 68,828 | \$ 8,870 |
| Public safety | 1,536,508 | 1,536,508 | 1,370,742 | 165,766 |
| Public works | 9,950 | 9,950 | 78 | 9,872 |
| Communications | 9,569 | 9,569 | 97,157 | (87,588) |
| Capital Projects | 165,287 | 165,287 | 78,733 | 86,554 |
| Special projects | 2,500,000 | 2,500,000 | 94,330 | 2,405,670 |
| Facilities, infrastructure, and equipment acquisitions | 57,750 | 199,751 | 19,732 | 180,019 |
| Capital outlays | - | - | 1,439,002 | (1,439,002) |
| Total Expenditures | \$ 4,356,762 | \$ 4,498,763 | \$ 3,168,602 | \$ 1,330,161 |
| Excess (deficiency) of revenues over expenditures | \$ (2,346,762) | \$ (2,688,763) | \$ (1,076,468) | \$ 1,612,295 |

**CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2011**

| | Final Budget | Actual - General Fund | Budget Favorable (Unfavorable) |
|-------------------------------------|---------------------|-----------------------------|--------------------------------------|
| REVENUES | | | |
| Taxes | | | |
| Real estate | \$ 1,074,500 | \$ 1,002,107 | \$ (72,393) |
| State income taxes | 1,800,000 | 1,414,503 | (385,497) |
| Total Taxes | <u>2,874,500</u> | <u>2,416,610</u> | <u>(457,890)</u> |
| From Other Governments | | | |
| State of Maryland | | | |
| Highway user revenue | 8,500 | 8,354 | (146) |
| State police aid | 142,000 | 108,357 | (33,643) |
| Montgomery County | | | |
| Duplicative services | 100,000 | 89,961 | (10,039) |
| Total From Other Governments | <u>250,500</u> | <u>206,672</u> | <u>(43,828)</u> |
| Miscellaneous | | | |
| Contracted police services | - | 6,275 | 6,275 |
| Investment income | 30,000 | 23,914 | (6,086) |
| Building rent | 84,557 | 82,369 | (2,188) |
| Fees, licenses and permits | 40,900 | 61,056 | 20,156 |
| Other income | 38,500 | 81,283 | 42,783 |
| Total Miscellaneous | <u>193,957</u> | <u>254,897</u> | <u>60,940</u> |
| Total Revenues | <u>\$ 3,318,957</u> | <u>\$ 2,878,179</u> | <u>\$ (440,778)</u> |

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

| | Final Budget | Actual | Budget Favorable (Unfavorable) |
|--|-------------------|-------------------|--------------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| General Government (Administration) | | | |
| Personnel | | | |
| Salaries | \$ 305,002 | \$ 251,248 | \$ 53,754 |
| Employer obligations | 23,872 | 20,214 | 3,658 |
| Employee benefits | 101,991 | 47,963 | 54,028 |
| Organizational development | 20,700 | 20,218 | 482 |
| Operations | | | |
| Communications | 6,500 | 6,427 | 73 |
| Community relations | 38,425 | 31,095 | 7,330 |
| General expenditures | 30,460 | 32,240 | (1,780) |
| Insurance | 7,500 | 7,142 | 358 |
| Professional services | 269,880 | 259,083 | 10,797 |
| Program Cost Savings | 1,500 | - | 1,500 |
| Service contracts | 12,415 | 9,065 | 3,350 |
| Supplies | 6,000 | 6,257 | (257) |
| Vehicle Liability | 250 | - | 250 |
| Equipment maintenance and repair | 3,250 | 1,077 | 2,173 |
| Computer and technical support | 4,200 | 4,540 | (340) |
| Total General Government | <u>831,945</u> | <u>696,569</u> | <u>135,376</u> |
| Public Safety | | | |
| Personnel | | | |
| Salaries | 548,281 | 495,468 | 52,813 |
| Employer obligations | 73,063 | 70,573 | 2,490 |
| Employee benefits | 122,668 | 111,578 | 11,090 |
| Organizational development | 35,600 | 11,471 | 24,129 |
| Operations | | | |
| Communications | 8,196 | 6,676 | 1,520 |
| Capital outlay | - | 16,000 | (16,000) |
| General expenditures | 12,500 | 4,852 | 7,648 |
| Insurance | 6,838 | 5,182 | 1,656 |
| Professional services | 500 | - | 500 |
| Service contracts | 5,550 | 4,214 | 1,336 |
| Supplies | 5,250 | 4,953 | 297 |
| Vehicle operations | 27,100 | 23,565 | 3,535 |
| Equipment maintenance and repair | 1,750 | 160 | 1,590 |
| Computer and technical support | 5,250 | 3,947 | 1,303 |
| Total Public Safety | <u>852,546</u> | <u>758,639</u> | <u>93,907</u> |

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2011

| | Final Budget | Actual | Budget Favorable (Unfavorable) |
|----------------------------------|-----------------|----------------|--------------------------------------|
| Public Works | | | |
| Personnel | | | |
| Salaries | \$ 367,109 | \$ 370,912 | \$ (3,803) |
| Employer obligations | 56,488 | 49,760 | 6,728 |
| Employee benefits | 102,941 | 89,307 | 13,634 |
| Contracts labor/staff | 8,000 | 6,438 | 1,562 |
| Organizational development | 750 | - | 750 |
| Operations | | | |
| Communications | 4,600 | 3,999 | 601 |
| Disposal and recycling | 268,000 | 244,336 | 23,664 |
| General expenditures | 9,000 | 8,128 | 872 |
| Insurance | 5,400 | 3,481 | 1,919 |
| Weather events | 14,000 | 17,883 | (3,883) |
| Small tools and shop supplies | 3,000 | 2,374 | 626 |
| Vehicles - operations | 26,000 | 19,266 | 6,734 |
| Equipment maintenance and repair | 1,000 | - | 1,000 |
| Total Public Works | <u>866,288</u> | <u>815,884</u> | <u>50,404</u> |

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2011

| | Final Budget | Actual | Budget Favorable (Unfavorable) |
|--|-----------------|----------------|--------------------------------------|
| Communications | | | |
| Personnel | | | |
| Salaries | \$ 297,906 | \$ 186,298 | \$ 111,608 |
| Employer obligations | 23,628 | 23,853 | (225) |
| Employee benefits | 90,548 | 80,259 | 10,289 |
| Organizational development | 2,500 | 900 | 1,600 |
| Operations | | | |
| Communications | 1,804 | 1,884 | (80) |
| General expenditures | 1,450 | 307 | 1,143 |
| Service contracts | 17,500 | 13,451 | 4,049 |
| Supplies | 2,500 | 2,060 | 440 |
| Equipment purchases maintenance and repair | 1,450 | 265 | 1,185 |
| Computer and technical support | 1,500 | 1,449 | 51 |
| Total Communications | <u>440,786</u> | <u>310,726</u> | <u>130,060</u> |
| Special Projects | | | |
| Wohlfarth | 78,120 | 77,904 | 216 |
| Litigation Reserve | 300,000 | 284,769 | 15,231 |
| Total Special Projects | <u>378,120</u> | <u>362,673</u> | <u>15,447</u> |
| Capital Projects | | | |
| Personnel | | | |
| Salaries | 20,171 | 23,173 | (3,002) |
| Employer obligations | 1,776 | 1,491 | 285 |
| Employee benefits | 9,355 | 8,511 | 844 |
| Organizational development | 975 | 170 | 805 |
| Operations | | | |
| Communications | 1,250 | 490 | 760 |
| Insurance | 200 | 26 | 174 |
| Professional services | 7,150 | 1,625 | 5,525 |
| Supplies | 1,100 | 1,184 | (84) |
| Equipment purchases maintenance and repair | 400 | 580 | (180) |
| Vehicles - operations | 300 | - | 300 |
| Total Capital Projects | <u>42,677</u> | <u>37,250</u> | <u>5,427</u> |

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2011

| | Final Budget | Actual | Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|--------------------------------------|
| Facilities, Infrastructure and Equipment Acquisitions | | | |
| Village Hall | | | |
| Systems & Structures | \$ 42,000 | \$ 15,144 | \$ 26,856 |
| Insurance | 4,450 | 3,552 | 898 |
| Service contracts | 23,750 | 19,493 | 4,257 |
| Supplies | 3,700 | 3,515 | 185 |
| Utilities | 39,000 | 22,848 | 16,152 |
| Equipment repair and maintenance | 4,000 | - | 4,000 |
| Total Village Hall | <u>116,900</u> | <u>64,552</u> | <u>52,348</u> |
| Parks, Trees and Greenspace | | | |
| Communications | - | 4,318 | (4,318) |
| Utilities | 2,000 | 1,275 | 725 |
| Equipment repair and maintenance | 500 | 737 | (237) |
| Supplies | 200 | 176 | 24 |
| Grounds and amenities | 73,500 | 56,266 | 17,234 |
| Service contracts | 2,100 | 1,748 | 352 |
| Tree programs | 267,500 | 269,839 | (2,339) |
| Total Parks, Trees, and Greenspace | <u>345,800</u> | <u>334,359</u> | <u>11,441</u> |
| Streets, Walks, Drains, and Lights | | | |
| Utilities | 40,000 | 43,263 | (3,263) |
| Contracted | 15,000 | - | 15,000 |
| Total Streets, Walks, Drains, and Lights | <u>55,000</u> | <u>43,263</u> | <u>11,737</u> |
| Vehicle and Equipment Replacement | | | |
| Copier purchase | 7,500 | - | 7,500 |
| Public works | 2,500 | - | 2,500 |
| Total Vehicle and Equipment Replacement | <u>10,000</u> | <u>-</u> | <u>10,000</u> |
| Total Facilities, Infrastructure, and Equipment Acquisitions | <u>527,700</u> | <u>442,174</u> | <u>85,526</u> |
| Total Expenditures | <u>\$ 3,940,062</u> | <u>\$ 3,423,915</u> | <u>\$ 516,147</u> |

**CHEVY CHASE VILLAGE, MARYLAND
 SCHEDULE OF REVENUES
 BUDGET AND ACTUAL - SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2011**

| | Final Budget | Actual | Budget Favorable (Unfavorable) |
|-----------------------|---------------------|---------------------|--------------------------------------|
| REVENUES | | | |
| Safe Speed citations | \$ 1,800,000 | \$ 2,083,703 | \$ 283,703 |
| Investment interest | 10,000 | 8,431 | (1,569) |
| Total Revenues | <u>\$ 1,810,000</u> | <u>\$ 2,092,134</u> | <u>\$ 282,134</u> |

**CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2011**

| | Final Budget | Actual | Budget Favorable (Unfavorable) |
|---|---------------------|---------------------|--------------------------------------|
| EXPENDITURES | | | |
| Department Services | | | |
| General government | \$ 77,698 | \$ 68,828 | \$ 8,870 |
| Police | 1,536,508 | 1,370,742 | 165,766 |
| Communications | 9,569 | 97,157 | (87,588) |
| Public works | 9,950 | 78 | 9,872 |
| Capital projects | 165,287 | 78,733 | 86,554 |
| Total Department Services | <u>1,799,012</u> | <u>1,615,538</u> | <u>183,474</u> |
| Facilities, Fleet and Infrastructure | | | |
| Sidewalks and streets | 192,001 | 186,235 | 5,766 |
| Village Hall | 7,750 | 14,244 | (6,494) |
| Total Facilities, Fleet and Infrastructure | <u>199,751</u> | <u>200,479</u> | <u>(728)</u> |
| Special Projects | | | |
| State user fees | - | 82,393 | (82,393) |
| Buffer emergency phone | - | 668 | (668) |
| Photometric | - | 3,691 | (3,691) |
| Brookville Road walkway | 1,750,000 | 1,258,255 | 491,745 |
| Other | 750,000 | 7,578 | 742,422 |
| Total Special Projects | <u>2,500,000</u> | <u>1,352,585</u> | <u>1,147,415</u> |
| Total Expenditures | <u>\$ 4,498,763</u> | <u>\$ 3,168,602</u> | <u>\$ 1,330,161</u> |