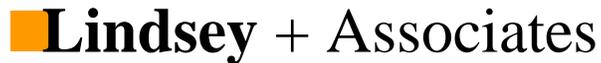


**CHEVY CHASE VILLAGE, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2012**

**CHEVY CHASE VILLAGE
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JUNE 30, 2012**

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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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 8 and 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chevy Chase Village, Maryland's financial statements as a whole. The supplemental schedules, as listed in the table of contents, are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the, information is fairly stated in all material respects in relation to the financial statements as a whole.

September 27, 2012

Hindley & Associates, LLC

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012. 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, 2012 and June 30, 2011.

	2012	2011
<u>Assets</u>		
Cash, investments and receivables	\$ 6,757,849	\$ 6,568,538
Capital assets, net of depreciation	3,946,367	3,363,898
	10,704,216	9,932,436
 <u>Liabilities</u>		
Payables and other current obligations	221,759	210,881
Long term obligations	317,574	289,574
	539,333	500,455
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	3,946,367	3,363,898
Restricted for Safe Speed Program approved projects	2,339,354	2,856,101
Unrestricted net assets	3,879,162	3,211,982
	\$ 10,164,883	\$ 9,431,981

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012 and June 30, 2011.

	Change in Net Assets (Full Accrual Basis)	
	Governmental Activities	
	2012	2011
Program revenues		
Charges for services	183,327	224,708
<i>SafeSpeed</i> program	1,681,819	2,442,796
Operating grants and contributions	235,822	228,947
	2,100,968	2,896,451
General revenues		
Property and income taxes levied for general purposes	3,044,681	2,457,768
<i>SafeSpeed</i> program investment earnings	4,270	8,431
Unrestricted investment earnings	19,259	23,914
	3,068,210	2,490,113
Total revenues	5,169,178	5,386,564
Expenses		
Police and communications	994,768	1,327,020
<i>SafeSpeed</i> program	1,572,038	1,729,600
Public works, parks, and recreation	1,179,991	1,389,207
Administration and special projects	676,019	1,139,766
Total expenses	4,422,816	5,585,593
Loss on disposal of fixed assets	(13,460)	(12,523)
Change in net assets	732,902	(211,552)
Net assets, beginning of year	9,431,981	9,643,533
Net assets, end of year	10,164,883	9,431,981

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 *SafeSpeed 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, 2012**

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 Expenditures - Budget and Actual
(Modified Accrual Basis - General Fund)**

	Final Budget	Actual	Variance Positive / (Negative)
Revenue	\$ 2,968,807	\$ 3,531,872	\$ 563,065
Expenditures	3,091,525	2,731,679	359,846
Excess of revenue over expenditures	<u>\$ (122,718)</u>	<u>\$ 800,193</u>	<u>\$ 922,911</u>

Management's Discussion

The Village enjoys a strong financial position. In recent years the Village has benefited from income from the *SafeSpeed* Program, a photo enforcement program along Connecticut Avenue, and this year the Village has also benefitted from stronger than expected income tax revenue. The Village has continued to be judicious in its expenditures and will continue to do so in the coming year. The following sections explain the Village's accomplishments, issues and plans for fiscal 2013 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 regular Village operations. These factors, which are beyond the Village's direct control, are quite variable. The Village maintained the constant yield rate for its real estate taxes as the property assessment base had minimal change this year. This allowed the Village to receive approximately the same revenue from real estate taxes as it has the previous few years.

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 Village residents and can also be affected as residents move into and out of the Village. Income tax revenues in fiscal 2012 were 30% higher than budgeted and were \$535,326 or 38% higher than fiscal 2011's collections. Income tax revenues for fiscal 2013 are budgeted at \$1,850,000 or almost 5% lower than fiscal 2012's actual receipts.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Overall General Funds Revenues

The general fund's budget projected total revenues of \$2,968,807. The Village received \$563,065 more than projected attributable to big increases in income tax revenue, and slight increases in highway user fees and cable franchise fees.

General Fund Expenses

Primarily through deferred salaries from unfilled budgeted positions within the communication department, personnel costs came in lower than budgeted. Operational expenditures also came in lower than budgeted during the course of the fiscal year due to decreased legal costs, a lack of inclement weather, and lower operational expenditures. The Village was able to reduce its actual expenses by \$359,846 in FY 2012. These reductions had no effect on services provided to Village residents.

SafeSpeed Program

The Village has maintained a *SafeSpeed* Program since fiscal 2008. The citations collected in fiscal 2012, including current and delinquent citations, were \$1,853,117 lower than fiscal 2011 representing an 11% decrease. This is likely due to the prevalence of photo speed enforcement programs across the state and in the neighboring District of Columbia, which has caused a significant increase in driver awareness and a 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 public safety related expenses currently allocated to the Special Revenue Fund.

Budget Modifications During FY2012

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 2012:

Sidewalk Replacement	\$	436,952
Police Radios		13,325
Public Works Pick-up Truck, outfitted		18,042
Tree Inventory		9,000
Thermal Police Scopes		<u>500</u>
	\$	477,819

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Capital Assets

The Village's Total Net Assets at June 30, 2012 totaled \$10,164,883 of which \$3,946,367 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, 2012, 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 \$5,000 and a useful life greater than one year. Refer to footnote 6 for a detailed schedule of capital assets and related depreciation.

The overall increase in net assets in fiscal 2012 primarily reflects the Village's investment in its infrastructure and vehicles and its overall surplus which has been added to its current assets.

Major capital asset additions during the year ended June 30, 2012 include the following:

New Sidewalks	\$ 577,563
Street Light Upgrades	21,616
Roadway Repavement	122,642
Public Works Truck, outfitted	34,687
Police Radios	63,321
Police Thermal Scopes	<u>5,398</u>
	\$ 825,227

Next Year

The costs of general and *SafeSpeed* operations in fiscal year 2013 are expected to be \$3,600,236 and \$2,253,906, respectively. Revenues are also budgeted at \$3,670,052 and \$1,810,000, respectively. Revenues received through income taxes continue to serve as the Village's primary source of revenue. While the increase in income tax receipts in fiscal 2012 was welcomed, it is impossible to predict upcoming income tax revenues, with any certainty, so restraining on-going expenditures will continue to be a high priority.

The Village is pursuing several Capital Projects in fiscal 2013 including the renovation of the Public Works Department's spaces in the bottom level of the Village Hall, and the 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 second phase of a 4-year project to replace Village sidewalks; the replacement and upgrade of our accounting server and system; the replacement of the boiler heating system in the Village Hall; installation of additional streetlights in areas throughout the community that have been identified as "dark spots" or under-lit; the purchase of a records management system for digitally archiving Village records; and the continued maintenance and repair of Village streets.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	\$ 1,568,188
Cash and cash equivalents - restricted	891,104
Investments	3,744,374
Amounts due from other governments	423,143
Safe Speed program citations receivable, net of allowance	131,040
Total Current Assets	6,757,849
Noncurrent Assets	
Net capital assets	3,946,367
Total Noncurrent Assets	3,946,367
TOTAL ASSETS	\$ 10,704,216
 LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	\$ 214,657
Amounts held in escrow and deposit	7,102
Total Current Liabilities	221,759
Noncurrent Liabilities	
Compensated absences	317,574
Total Noncurrent Liabilities	317,574
TOTAL LIABILITIES	539,333
 NET ASSETS	
Invested in capital assets, net of related debt	3,946,367
Restricted	-
Safe Speed Program approved projects	2,339,354
Unrestricted	3,879,162
TOTAL NET ASSETS	10,164,883
 TOTAL LIABILITIES AND NET ASSETS	 \$ 10,704,216

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, 2012

	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	\$ 644,653	\$ 183,327	\$ -	\$ 198,317	\$ (263,009)
Public safety	696,384	-	16,000	-	(680,384)
Public works	903,991	-	21,505	-	(882,486)
Communications	298,384	-	-	-	(298,384)
Safe speed program	1,572,038	1,681,819	-	-	109,781
Facilities, infrastructure, and equipment	276,000	-	-	-	(276,000)
Special projects	31,366	-	-	-	(31,366)
Total Governmental Activities	4,422,816	1,865,146	37,505	198,317	(2,321,848)
Total Primary Government	\$ 4,422,816	\$ 1,865,146	\$ 37,505	\$ 198,317	\$ (2,321,848)
General revenues:					
Taxes					
					1,885,046
					1,159,635
					23,529
					3,068,210
					-
					(13,460)
					732,902
					9,431,981
					\$ 10,164,883

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

**CHEVY CHASE VILLAGE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2012**

	General Fund	Special Revenue Fund	Total Governmental Funds		
ASSETS					
Cash and cash equivalents - unrestricted	\$ 1,568,188	\$ -	\$ 1,568,188	<i>Total Governmental Fund Balances</i>	\$ 5,981,907
Cash and cash equivalents - restricted	-	891,104	891,104		
Investments	2,210,863	1,533,511	3,744,374	Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(317,574)
Due from other funds	-	11,446	11,446		
Accounts receivable, net of allowances	-	131,040	131,040		
Accounts receivable - income taxes	423,143	-	423,143		
	<u>\$ 4,202,194</u>	<u>\$ 2,567,101</u>	<u>\$ 6,769,295</u>	Deferred revenues are recorded on the modified accrual basis.	554,183
TOTAL ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	\$ 117,950	\$ 96,707	\$ 214,657	Capital assets used in governmental activities are not financial resources and therefore are not reported on the funds.	3,946,367
Amounts held in escrow	7,102	-	7,102		
Due to other funds	11,446	-	11,446		
Deferred revenues	423,143	131,040	554,183		
TOTAL LIABILITIES	<u>559,641</u>	<u>227,747</u>	<u>787,388</u>	<i>Net Assets of Governmental Activities</i>	<u>\$ 10,164,883</u>
FUND BALANCES					
Restricted - Safe Speed Program approved projects	-	2,339,354	2,339,354		
Unassigned	3,642,553	-	3,642,553		
TOTAL FUND BALANCES	<u>3,642,553</u>	<u>2,339,354</u>	<u>5,981,907</u>		
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,202,194</u>	<u>\$ 2,567,101</u>	<u>\$ 6,769,295</u>		

CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 3,109,464	\$ -	\$ 3,109,464
Safe speed citations	-	1,853,117	1,853,117
Intergovernmental	219,822	-	219,822
Fees, licenses, and permits	53,148	-	53,148
Rents	80,672	-	80,672
Interest income	19,259	4,270	23,529
Miscellaneous	49,507	-	49,507
Total Revenues	<u>3,531,872</u>	<u>1,857,387</u>	<u>5,389,259</u>
Expenditures			
General government	547,555	91,462	639,017
Public safety	738,677	1,255,705	1,994,382
Public works	784,586	1	784,587
Communications	304,515	91,075	395,590
Facilities, infrastructure, and equipment	266,778	68,488	335,266
Special projects	31,366	6,075	37,441
Capital projects	58,202	59,232	117,434
Capital outlay	-	802,096	802,096
Total Expenditures	<u>2,731,679</u>	<u>2,374,134</u>	<u>5,105,813</u>
Excess (deficiency) of revenues over expenditures	800,193	(516,747)	283,446
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	800,193	(516,747)	283,446
Fund balance, beginning of year	<u>2,842,360</u>	<u>2,856,101</u>	<u>5,698,461</u>
Fund balance, end of year	<u>\$ 3,642,553</u>	<u>\$ 2,339,354</u>	<u>\$ 5,981,907</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, 2012**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 283,446
Increase in Safe Speed Program uncollected revenues are current financial resources and are not reported as revenue in the funds.	(40,230)
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.	595,929
Fixed assets are not recorded in the governmental funds; therefore, loss on disposal is not reflected.	(13,460)
Changes in deferred state income taxes do not provide current financial resources and are not reported as revenue in the funds.	(64,783)
Difference between accrual and modified accrual in accounting for compensated absences.	(28,000)
<i>Change in Net Assets of Governmental Activities</i>	<u>\$ 732,902</u>

CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2012

ASSETS

Cash and cash equivalents	\$ -
Investments, at fair value	1,452,773
Due from other funds	-
Total assets	<u>\$ 1,452,773</u>

LIABILITIES

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

NET ASSETS

Held in trust for pension benefits	<u>1,452,773</u>
Total net assets	<u>\$ 1,452,773</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, 2012

ADDITIONS

Contributions		
Employer	\$	133,727
Plan member		-
Total contributions		<u>133,727</u>
Investment Income		
Net increase in fair value of investments		12,395
Interest		-
Net investment income		<u>12,395</u>
Total additions		146,122

DEDUCTIONS

Distributions		(237,851)
Administrative expenses		(208)
		<u>(238,059)</u>
Net decrease		(91,937)
Net assets held in trust for pension benefits, beginning of year		<u>1,544,710</u>
Net assets held in trust for pension benefits, end of year	\$	<u><u>1,452,773</u></u>

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 *SafeSpeed* 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, 2012

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, 2012

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 *SafeSpeed* 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. *SafeSpeed* camera revenues are recognized as revenue when received.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Investments held at June 30, 2012 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, 2012 consist of *SafeSpeed* camera citations totaling \$363,955. The Village recognizes an allowance for doubtful accounts to ensure that speed camera receivables are not overstated due to un-collectability. At June 30, 2012, the allowance for doubtful accounts in the special revenue fund is \$232,915. The resulting accounts receivable – net of allowances at June 30, 2012 is \$131,040.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 \$5,000 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, 2012

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, 2012, the liability to Village employees for accrued annual and sick leave was \$317,574 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, 2012, the Village was advised by the State of Maryland that \$423,143 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 \$423,143 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, 2012

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

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, 2012

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 2012. For day-to-day management control, expenditures may not exceed budget at the department level.

NOTE 3 – DEPOSITS AND INVESTMENTS

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, 2012

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 \$2,458,992 and the bank balances totaled \$2,545,716. 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, 2012, 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, 2012

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, 2012, 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	\$ 207,497	\$ 207,497	AAAm
MLGIP - restricted	434,428	434,428	AAAm
Total MLGIP	641,925	641,925	
Certificates of Deposit issued by:			
Congressional Bank	250,000	250,000	N/A
Fairmount Bank	250,000	250,000	N/A
Frederick County Bank	250,000	250,000	N/A
Baltimore County Savings Bank	250,029	250,029	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	2,000,029	2,000,029	
Treasury Bills	1,099,083	1,099,083	N/A
Money Market	3,337	3,337	
	<u>\$ 3,744,374</u>	<u>\$ 3,744,374</u>	
Pension Trust Fund - mutual funds	<u>\$ 1,452,773</u>	<u>\$ 1,452,773</u>	N/A

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012:

Income taxes	\$ 423,143
Safe Speed Program	131,040
Total	<u><u>\$ 554,183</u></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, 2012 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, 2012

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012 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	1,446,202	721,821	-	2,168,023
Village building and improvements	2,571,458	-	-	2,571,458
Furniture and fixtures	300,883	-	-	300,883
Vehicles and equipment	670,503	103,406	127,416	646,493
Subtotal	4,989,046	825,227	127,416	5,686,857
Total capital assets	5,302,937	825,227	127,416	6,000,748
Accumulated depreciation:				
Street and sidewalk improvements	18,618	45,178	-	63,796
Village building and improvements	1,166,986	46,644	-	1,213,630
Furniture and fixtures	291,816	4,279	-	296,095
Vehicles and equipment	461,619	133,197	113,956	480,860
Subtotal, accumulated depreciation	1,939,039	229,298	113,956	2,054,381
Net capital assets	\$ 3,363,898	\$ 595,929	\$ 13,460	\$ 3,946,367

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 96,101
Recreation and culture	8,892
Public works	82,274
Public safety	42,031
Total government activities depreciation expense	\$ 229,298

As of June 30, 2012, there were no material construction commitments.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 \$133,727 for the year ended June 30, 2012.

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, 2012 were \$19,050.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012.

<u>Compensated Absences</u>	<u>Balance July 1, 2011</u>	<u>Increase / (Decrease)</u>	<u>Balance June 30, 2012</u>	<u>Due within one year</u>
Accrued sick leave	\$ 112,822	\$ (1,979)	\$ 110,843	\$ -
Accrued vacation	149,305	14,726	164,031	-
Accrued compensatory time	27,447	15,253	42,700	-
Total	<u>\$ 289,574</u>	<u>\$ 28,000</u>	<u>\$ 317,574</u>	<u>\$ -</u>

NOTE 10 – CONCENTRATION OF REVENUES

The Village derives most of its revenues from the citizens of the Village and from the *SafeSpeed* 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 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, 2012 and the amounts of settlements have not exceeded coverage for each of the past three years. During the year ended June 30, 2012 the Village paid premiums of \$16,064 to the Trust.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, Chevy Chase Village was advised by the State of Maryland that \$423,143 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. *SafeSpeed* revenues are recognized when received.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 16 – FUND BALANCE REPORTING

Fund balances for the Village’s governmental funds consisted of the following as of June 30, 2012:

Restricted Fund Balances

All fund balances in the special revenue fund is restricted to public safety purposes. At June 30, 2012, this amount was \$2,339,354.

Unassigned Fund Balances

All fund balances in the general fund is unassigned. At June 30, 2012, this amount was \$3,642,553.

NOTE 17 – SAFESPEED 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, 2012, the Village has determined that \$0 is due to the State Comptroller as a result of this law.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

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. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012, effective for financial statements for periods beginning after December 15, 2012.

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012, effective for financial statements for periods beginning after December 15, 2012.

Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012, effective for financial statements for fiscal years beginning after June 15, 2013.

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, effective for fiscal years beginning after June 15, 2014.

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

At June 30, 2012, the Village was a defendant in one lawsuit. Subsequent to year-end, the Village was dismissed from the case after a motions hearing.

CHEVY CHASE VILLAGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - UNAUDITED
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund		Actual	Variance
	Original Budget	Final Budget		
Revenues				
Taxes	\$ 2,577,500	\$ 2,577,500	\$ 3,109,464	\$ 531,964
Intergovernmental	200,000	200,000	219,822	19,822
Interest income	191,307	25,000	19,259	(5,741)
Miscellaneous	-	166,307	183,327	17,020
Total Revenues	\$ 2,968,807	\$ 2,968,807	\$ 3,531,872	\$ 563,065
Expenditures				
General government	\$ 637,490	\$ 637,490	\$ 547,555	\$ 89,935
Public safety	743,182	743,182	738,677	4,505
Public works	840,290	840,290	784,586	55,704
Communications	329,858	329,858	304,515	25,343
Capital Projects	62,969	62,969	58,202	4,767
Special projects	132,750	141,750	31,366	110,384
Facilities, infrastructure, and equipment acquisitions	329,555	335,986	266,778	69,208
Capital outlays	-	-	-	-
Total Expenditures	\$ 3,076,094	\$ 3,091,525	\$ 2,731,679	\$ 359,846
Excess (deficiency) of revenues over expenditures	\$ (107,287)	\$ (122,718)	\$ 800,193	\$ 922,911

CHEVY CHASE VILLAGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - UNAUDITED
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Fund		Actual	Variance
	Original Budget	Final Budget		
Revenues				
Safe speed citations	\$ 2,100,000	\$ 2,100,000	\$ 1,853,117	\$ (246,883)
Interest income	10,000	10,000	4,270	(5,730)
Total Revenues	\$ 2,110,000	\$ 2,110,000	\$ 1,857,387	\$ (252,613)
Expenditures				
General government	\$ 153,467	\$ 153,467	\$ 91,462	\$ 62,005
Public safety	1,460,641	1,460,641	1,255,705	204,936
Public works	8,000	8,000	1	7,999
Communications	110,362	110,362	91,075	19,287
Capital Projects	76,795	76,795	59,232	17,563
Special projects	462,000	924,384	6,075	918,309
Facilities, infrastructure, and equipment acquisitions	40,000	40,000	68,488	(28,488)
Capital outlays	-	-	802,096	(802,096)
Total Expenditures	\$ 2,311,265	\$ 2,773,649	\$ 2,374,134	\$ 399,515
Excess (deficiency) of revenues over expenditures	\$ (201,265)	\$ (663,649)	\$ (516,747)	\$ 146,902

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	Final Budget	Actual - General Fund	Budget Favorable (Unfavorable)
REVENUES			
Taxes			
Real estate	\$ 1,077,500	\$ 1,159,635	\$ 82,135
State income taxes	1,500,000	1,949,829	449,829
Total Taxes	<u>2,577,500</u>	<u>3,109,464</u>	<u>531,964</u>
From Other Governments			
State of Maryland			
Highway user revenue	5,000	21,505	16,505
State police aid	110,000	108,356	(1,644)
Montgomery County			
Duplicative services	85,000	89,961	4,961
Total From Other Governments	<u>200,000</u>	<u>219,822</u>	<u>19,822</u>
Miscellaneous			
Investment income	25,000	19,259	(5,741)
Building rent	85,557	80,672	(4,885)
Fees, licenses and permits	35,250	53,148	17,898
Other income	45,500	49,507	4,007
Total Miscellaneous	<u>191,307</u>	<u>202,586</u>	<u>11,279</u>
Total Revenues	<u>\$ 2,968,807</u>	<u>\$ 3,531,872</u>	<u>\$ 563,065</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Budget Favorable (Unfavorable)
General Government (Administration)			
Personnel			
Salaries	\$ 239,288	\$ 252,795	\$ (13,507)
Employer obligations	20,027	18,740	1,287
Employee benefits	56,450	53,073	3,377
Organizational development	16,750	17,409	(659)
Operations			
Communications	5,950	4,892	1,058
Community relations	39,100	27,655	11,445
General expenditures	27,310	26,561	749
Insurance	850	6,148	(5,298)
Professional services	204,500	121,314	83,186
Service contracts	11,415	8,167	3,248
Supplies	6,000	4,186	1,814
Vehicle Liability	200	-	200
Equipment maintenance and repair	1,200	450	750
Computer and technical support	8,450	6,165	2,285
Total General Government	<u>637,490</u>	<u>547,555</u>	<u>89,935</u>
Public Safety			
Personnel			
Salaries	478,892	495,097	(16,205)
Employer obligations	67,262	62,286	4,976
Employee benefits	120,628	114,042	6,586
Organizational development	12,850	5,123	7,727
Operations			
Communications	8,000	4,873	3,127
General expenditures	8,900	7,266	1,634
Insurance	5,700	5,890	(190)
Professional services	500	618	(118)
Service contracts	4,850	1,086	3,764
Supplies	5,850	3,035	2,815
Vehicle operations	24,500	33,573	(9,073)
Equipment maintenance and repair	1,250	1,786	(536)
Computer and technical support	4,000	4,002	(2)
Total Public Safety	<u>743,182</u>	<u>738,677</u>	<u>4,505</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Budget Favorable (Unfavorable)
Public Works			
Personnel			
Salaries	\$ 364,880	\$ 364,590	\$ 290
Employer obligations	48,110	43,067	5,043
Employee benefits	104,100	95,897	8,203
Contracts labor/staff	10,000	2,504	7,496
Organizational development	500	-	500
Operations			
Communications	4,450	3,084	1,366
Disposal and recycling	261,500	236,472	25,028
General expenditures	10,000	2,400	7,600
Insurance	4,000	3,823	177
Weather events	14,000	1,693	12,307
Small tools and shop supplies	6,500	942	5,558
Vehicles - operations	11,500	29,351	(17,851)
Equipment maintenance and repair	750	763	(13)
Total Public Works	840,290	784,586	55,704

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Budget Favorable (Unfavorable)
Communications			
Personnel			
Salaries	\$ 207,303	\$ 215,522	\$ (8,219)
Employer obligations	16,700	17,063	(363)
Employee benefits	84,705	53,239	31,466
Organizational development	800	424	376
Operations			
Communications	1,600	1,032	568
General expenditures	150	40	110
Service contracts	14,850	13,557	1,293
Supplies	2,000	2,044	(44)
Equipment purchases maintenance and repair	500	-	500
Computer and technical support	1,250	1,594	(344)
Total Communications	<u>329,858</u>	<u>304,515</u>	<u>25,343</u>
Special Projects			
Wohlfarth	8,750	-	8,750
Building modifications	69,000	22,262	46,738
Website Redesign	55,000	-	55,000
Litigation Reserve	-	104	(104)
Tree inventory project	9,000	9,000	-
Total Special Projects	<u>141,750</u>	<u>31,366</u>	<u>110,384</u>
Capital Projects			
Personnel			
Salaries	41,959	40,279	1,680
Employer obligations	3,410	2,164	1,246
Employee benefits	12,120	12,640	(520)
Organizational development	530	-	530
Operations			
Communications	1,250	857	393
Insurance	200	57	143
Professional services	2,150	750	1,400
Supplies	850	1,302	(452)
Equipment purchases maintenance and repair	400	153	247
Vehicles - operations	100	-	100
Total Capital Projects	<u>62,969</u>	<u>58,202</u>	<u>4,767</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Budget Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
Facilities, Infrastructure and Equipment Acquisitions			
Village Hall			
Systems & Structures	\$ 17,000	\$ 10,576	\$ 6,424
Insurance	4,275	2,217	2,058
Service contracts	21,500	18,997	2,503
Supplies	4,000	3,853	147
Utilities	27,080	31,681	(4,601)
Equipment repair and maintenance	5,000	174	4,826
Total Village Hall	<u>78,855</u>	<u>67,498</u>	<u>11,357</u>
Parks, Trees and Greenspace			
Communications	-	1,516	(1,516)
Utilities	2,000	1,084	916
Equipment repair and maintenance	500	-	500
Supplies	250	320	(70)
Grounds and amenities	63,750	50,747	13,003
Service contracts	1,200	295	905
Tree programs	143,000	98,896	44,104
Total Parks, Trees, and Greenspace	<u>210,700</u>	<u>152,858</u>	<u>57,842</u>
Streets, Walks, Drains, and Lights			
Utilities	40,000	39,288	712
Total Streets, Walks, Drains, and Lights	<u>40,000</u>	<u>39,288</u>	<u>712</u>
Vehicle and Equipment Replacement			
Public works	6,431	7,134	(703)
Total Vehicle and Equipment Replacement	<u>6,431</u>	<u>7,134</u>	<u>(703)</u>
Total Facilities, Infrastructure, and Equipment Acquisitions	<u>335,986</u>	<u>266,778</u>	<u>69,208</u>
Total Expenditures	<u>\$ 3,091,525</u>	<u>\$ 2,731,679</u>	<u>\$ 359,846</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Budget Favorable (Unfavorable)
REVENUES			
Safe Speed citations	\$ 2,100,000	\$ 1,853,117	\$ (246,883)
Investment interest	10,000	4,270	(5,730)
Total Revenues	<u>\$ 2,110,000</u>	<u>\$ 1,857,387</u>	<u>\$ (252,613)</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Final Budget	Actual	Budget Favorable (Unfavorable)
EXPENDITURES			
Department Services			
General government	\$ 153,467	\$ 91,462	\$ 62,005
Police	1,460,641	1,255,705	204,936
Communications	110,362	91,075	19,287
Public works	8,000	1	7,999
Capital projects	76,795	59,232	17,563
Total Department Services	<u>1,809,265</u>	<u>1,497,475</u>	<u>311,790</u>
Facilities, Fleet and Infrastructure			
Village Hall	15,000	9,061	5,939
Parks, Trees & Greenspace	25,000	59,427	(34,427)
Total Facilities, Fleet and Infrastructure	<u>40,000</u>	<u>68,488</u>	<u>(28,488)</u>
Special Projects			
Sidewalk - repairs	11,000	6,075	4,925
Sidewalk - replacement	621,952	577,563	44,389
Street maintenance	181,000	122,642	58,358
Street light upgrades	30,000	21,616	8,384
Vehicle & equipment replacement	74,932	74,877	55
Other	5,500	5,398	102
Total Special Projects	<u>924,384</u>	<u>808,171</u>	<u>116,213</u>
Total Expenditures	<u>\$ 2,773,649</u>	<u>\$ 2,374,134</u>	<u>\$ 399,515</u>

September 27, 2012

To the Board of Managers
Chevy Chase Village, Maryland

We have audited the financial statements of the governmental activities and each major fund of Chevy Chase Village (the “Village”) for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 9, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village. Such consideration was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Village’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our test was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012 except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered during the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The Village maintains its books on a cash basis of accounting. At year end, we proposed adjusting journal entries to convert the Village's books to generally accepted accounting principles for governmental entities (accrual and modified accrual). Management has made the following adjustments pertaining to converting the books to GAAP.

- Fixed assets, depreciation expense and related accumulated depreciation
- Accrued salaries
- Accounts receivable
- Accounts payable

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that is included in the management representation letter dated September 27, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationships and our responses were not a condition to our retention.

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

Very truly yours,

Hindley's Associates, LLC