

**CHEVY CHASE VILLAGE, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2017**

**CHEVY CHASE VILLAGE
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JUNE 30, 2017**

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Independent Auditor's Report

Board of Managers
Chevy Chase Village, Maryland

Report on the Financial Statements

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, 2017, and the related notes to the financial statements which collectively comprise the basic financial statements of the Village as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund and the aggregate remaining fund information of Chevy Chase Village as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

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 4 through 10 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Other Information

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 of revenues and expenditures – budget and actual – general fund and schedules of revenues and expenditures – budget and actual – special revenue fund, on pages 38 through 44, 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.

October 9, 2017

Andrey Associates, LLC

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The management of Chevy Chase Village (the "Village") consists of the elected Board of Managers and the Village Manager. As management, we offer readers financial statements and this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2017. The following pages include:

- I. Summary Statement of Net Position (full accrual basis)
- II. Change in Net Position (including Revenues and Expenses, on a full accrual basis)
- III. Budget versus Actual Revenues and Expenses (modified accrual basis)
- IV. Management's Discussion
- V. Accounting Methods: Full versus Modified Accrual
- VI. Additional Information

I. Summary Statement of Net Position (full accrual basis)
(see page 11 for additional detail)

The comparative data shown below represent the Village's net position on the full accrual basis for the fiscal years ending June 30, 2017 and June 30, 2016.

	2017	2016
<u>Assets</u>		
Cash, investments and receivables	\$ 9,351,028	\$ 8,371,432
Capital assets, net of depreciation	7,759,334	7,932,337
	17,110,362	16,303,769
<u>Liabilities</u>		
Payables and other current obligations	263,929	182,721
Long term obligations*	1,388,160	1,323,033
	1,652,089	1,505,754
<u>Net Position</u>		
Net investment in capital assets	7,759,334	7,035,773
Restricted for Safe Speed Program approved projects	-	318,010
Unrestricted net position	7,698,939	7,444,232
	15,458,273	14,798,015
<u>Total Net Position</u>		
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 17,110,362	\$ 16,303,769

*See Note 9.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The comparative data below present the change in the Village's Net Position resulting from governmental activities during the fiscal years ending June 30, 2017 and June 30, 2016.

**II. Change in Net Position
(including Revenues and Expenses, on a full accrual basis - see page 12)**

	Governmental Activities	
	2017	2016
Program revenues		
Charges for services (1)	1,313,253	1,562,024
Grants and contributions	292,949	265,607
	1,606,202	1,827,631
General revenues		
Property and income taxes		
levied for general purposes	3,708,202	3,764,852
<i>SafeSpeed</i> program investment earnings	1,093	2,952
Unrestricted investment earnings	36,344	83,064
	3,745,639	3,850,868
Total revenues	5,351,841	5,678,499
Expenses		
Police and communications	2,377,666	2,482,582
Public works, parks, and recreation	1,204,689	1,279,259
Administration and special projects	1,032,315	1,026,413
Total expenses	4,614,670	4,788,254
Loss - See Note 9 re: Wynne case	(76,913)	(896,564)
Change in net position (2)	660,258	(6,319)
Net position, beginning of year	14,798,015	14,804,334
Net position, end of year	15,458,273	14,798,015

(1) Includes *SafeSpeed* citations

(2) Change in net position equals total revenues minus total expenses minus losses or gains.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

III. 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.

Each fund is controlled by an annual budget that is adopted by the Board of Managers in April. Budgetary comparison statements have been provided for these funds. The budget-to-actual comparisons are presented by department on pages 37 through 44. A summary comparison of General Funds – budget vs. actual is shown below:

**Schedule of Revenue and Expenditures - Budget and Actual
(Modified Accrual Basis - General and Special Revenue Funds)**

	Final Budget	Actual	Variance Positive / (Negative)
Revenue	\$ 5,038,007	\$ 5,386,656	\$ 348,649
Expenditures	5,062,024	4,453,453	608,571
Excess of revenue over expenditures	\$ (24,017)	\$ 933,203	\$ 957,220

IV. Management’s Discussion

The Village continues to enjoy a strong financial position. The Village has substantial reserves (\$8.56m), enough to cover approximately 1.75 times operating expenses. In recent years the Village has benefited from income received through the *SafeSpeed Program*, a photo-speed enforcement program along Connecticut Avenue. These funds have been used for the operation of this program as well as public safety-related expenses. Even though tax revenues were higher than expected in FY 2017, the Village’s management team continues to be judicious in its expenditures and will continue to do so going forward. The following sections explain the Village’s accomplishments, issues and plans for fiscal 2018 and beyond.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 sources of revenue, which are beyond the Village's direct control, are quite variable, especially the income tax portion of the tax revenues. The Village maintained the constant yield real estate tax rate as estimated by the State of Maryland at \$.082 per \$100 of assessed property value. By adopting the constant yield tax rate, this enabled the Village's real estate tax collections to remain relatively constant from the previous fiscal year.

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 largely affected as high-earning residents move into and out of the Village. Income tax revenues in fiscal 2017 were 25%, or \$544,170 higher than the budgeted amount.

Income tax revenues for fiscal 2018 are budgeted at \$2,200,000 or approximately 20% lower than fiscal 2017's actual receipts, in an effort to maintain a conservative projection, and to account for the effects of the Wynne case (a further explanation of this case can be found on pages 9 and 10), whereby certain Maryland income tax filers can potentially offset their county tax revenue if they also earn income that is taxed by other states.

Overall General and Special Revenue Funds Revenues

The general and special revenue funds' budget projected total revenues of \$5,038,007. The Village received \$348,648 more than projected attributable to the above-outlined increase in income tax revenue on a cash basis.

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

SafeSpeed Program

The Village has maintained a *SafeSpeed* Program (photo speed enforcement) since fiscal 2008. The fines collected in fiscal 2017, including fines for current and delinquent citations and accrued interest, were \$1,083,548, which is 18.5% lower than fiscal 2016. This continued the downward trend in revenue associated with this program; however the program maintains a net of approximately \$318,290 after deducting direct operating expenses.

In FY 2014, the Village Board decided to use *SafeSpeed* funds to directly fund the Village’s public safety expenditures. This decision was made because the use of *SafeSpeed* revenues and reserves is restricted to public safety expenditures, while the general income and reserves can be used for any authorized governmental expenditure.

If the Village no longer received revenues through the *SafeSpeed* Program, the Village’s general funds budget could incur up to \$350,000 in additional public safety-related expenses currently allocated to the Special Revenue Fund. This amount has been refined to more accurately reflect current direct expenses related to the program.

Overall Expenses

The Village’s overall operating expenses came in 11% below budget for FY 2017. This was due to lower than budgeted legal expenses for the year, a couple of unfilled employee positions through parts of the year, and conservative spending by Village management. Special Projects (including General and Special Revenue funds) came in under budget by \$81,619 with actual expenses for certain projects, equipment replacement, street light upgrades, and crime technology, coming in well below budget.

Budget Modifications During FY2017

The budget for the fiscal year is approved at the Village’s Annual Meeting held on the third Monday in the preceding April. As the fiscal year progresses, the budget may be modified by the Board of Managers due to unforeseen events. Below are budget modifications approved by the Board of Managers during fiscal year 2017:

Washington Gas reimbursement (revenue)	\$ 35,000
Website redesign (expense)	12,900
<u>Reallocations:</u>	
From Professional Services to Village Hall	5,000

**CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Assets

The Village’s Total Net Position at June 30, 2017 totaled \$15,458,273, of which \$723,561 is the increase in net investments in capital assets, and \$660,258 is the increase in Total Net Position. This represents capital assets, net of accumulated depreciation, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets. At June 30, 2017, 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 Note 6 for a detailed schedule of capital assets and related depreciation.

The overall increase in net position in fiscal 2017 primarily reflects the Village’s investment in its infrastructure and vehicles.

Major capital asset additions during the year ended June 30, 2017 include the following:

Website Redesign	\$	6,900
Street Maintenance		96,963
Public Works Vehicles and Equipment		47,898

Next Year

The costs of general and *SafeSpeed* operations in fiscal year 2018 are expected to be \$4,925,057. Based on the budget initially approved by the Board of Managers, the costs of Capital Projects are expected to be \$566,000. Revenues are also budgeted at \$3,629,257 for general operations and \$1,162,500 for *SafeSpeed* operations, for a total revenue budget of \$4,791,757. Revenues received through income taxes are expected to continue to serve as the Village’s primary source of revenue. While the increase in income tax receipts in fiscal 2017 was encouraging, it is impossible to predict upcoming income tax revenues with any certainty, so restraining on-going expenditures will continue to be a high priority.

In 2016, the State of Maryland lost the Maryland Comptroller vs. Wynne case in the United States Supreme Court by a 5-4 vote. As a result, the State of Maryland must not only allow credits for out-of-state taxes paid by businesses or non-passive 1099 self-employed individuals, but must also allow for the county and local tax credits as well which the state was not previously doing. The full impact of this ruling to the Village is not completely known as of now; however, there will be a liability owed by the Village to the State of Maryland for the payment of protective claims dating back up to six years, payment for refiled claims dating back three years and an almost certain reduction in core income tax revenue going forward. The reimbursement due by the Village to the State for claims related to the adjustment of prior years’ taxes is anticipated to be paid over a period of five years, starting May 2019. The current liability as of June 30, 2017 is

CHEVY CHASE VILLAGE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

\$973,477; this could increase as more amended returns are filed and processed, however, the prevailing opinion among officials at the State is that most substantial amended returns have already been filed and processed so this number will potentially increase by a non-substantial amount. The liability will be paid over twenty quarterly installments.

The Village is pursuing a few Capital Projects in fiscal 2017 including the continued maintenance of Village streets, the potential for the acquisition of new crime fighting technology and equipment, programmed vehicle and equipment replacements, redevelopment of the Brookville Road Park, replacement of the sidewalks within the Buffer Area along the western edge of the Community, and replacing the enclosure fencing around the Public Works yard and sidewalks on the Village Hall property

V. 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 Position and the Statement of Activities, are found on pages 11 and 12. The modified accrual format presents the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds on pages 13 and 14. 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 17 through 36.

VI. Other Information

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 POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	\$ 4,949,779
Cash and cash equivalents - restricted	75,063
Investments	3,735,254
Amounts due from other governments	487,238
Accounts receivable, net of allowances	103,694
Total Current Assets	<u>9,351,028</u>
Noncurrent Assets	
Net capital assets	7,759,334
Total Noncurrent Assets	<u>7,759,334</u>
TOTAL ASSETS	<u>17,110,362</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 17,110,362</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable and accrued expenses	\$ 255,563
Amounts held in escrow and deposit	8,366
Total Current Liabilities	<u>263,929</u>
Noncurrent Liabilities	
Compensated absences	414,683
Due to State - see Note 9	973,477
Total Noncurrent Liabilities	<u>1,388,160</u>
TOTAL LIABILITIES	<u>1,652,089</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>
NET POSITION	
Net investment in capital assets	7,759,334
Restricted	
Safe Speed Program - public safety	-
Unrestricted	7,698,939
Total Net Position	<u>15,458,273</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 17,110,362</u></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, 2017**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Functions/Programs	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	
Primary Government					
Governmental Activities:					
Administration	\$ 1,032,315	\$ 225,429	\$ 100,524	\$ -	\$ (706,362)
Public safety	2,018,652	1,087,824	103,056	-	(827,772)
Public works	911,315	-	66,227	23,142	(821,946)
Communications	359,014	-	-	-	(359,014)
Facilities, infrastructure, and equipment	293,374	-	-	-	(293,374)
Total Governmental Activities	4,614,670	1,313,253	269,807	23,142	(3,008,468)
Total Primary Government	\$ 4,614,670	\$ 1,313,253	\$ 269,807	\$ 23,142	\$ (3,008,468)
			General revenues:		
			Taxes		
			Income taxes	2,703,986	
			Property taxes	1,004,216	
			Interest and investment earnings	37,437	
			Total General Revenues	3,745,639	
			Loss - see Note 9	(76,913)	
			Change in Net Position	660,258	
			Net Position, beginning of year	14,798,015	
			Net Position, end of year	\$ 15,458,273	

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, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 3,748,386	\$ -	\$ 3,748,386
Safe speed citations	-	1,082,455	1,082,455
Intergovernmental	269,807	-	269,807
Fees, licenses, and permits	59,873	-	59,873
Rents	100,989	-	100,989
Interest income	36,344	1,093	37,437
WSSC reimbursement	23,142	-	23,142
Miscellaneous	64,567	-	64,567
Total Revenues	<u>4,303,108</u>	<u>1,083,548</u>	<u>5,386,656</u>
Expenditures			
Administration	804,072	-	804,072
Public safety	553,147	1,424,027	1,977,174
Public works	873,236	-	873,236
Communications	355,730	-	355,730
Facilities, infrastructure, and equipment	281,764	3,096	284,860
Capital outlay	151,783	6,598	158,381
Total Expenditures	<u>3,019,732</u>	<u>1,433,721</u>	<u>4,453,453</u>
Excess (deficiency) of revenues over expenditures	1,283,376	(350,173)	933,203
Other financing sources (uses)			
Transfers	(32,163)	32,163	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,251,213	(318,010)	933,203
Fund balance, beginning of year	<u>7,307,181</u>	<u>318,010</u>	<u>7,625,191</u>
Fund balance, end of year	<u>\$ 8,558,394</u>	<u>\$ -</u>	<u>\$ 8,558,394</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, 2017**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 933,203
Decreases in Safe Speed Program uncollected revenues do not use current financial resources and are not reported as revenue in the funds.	5,369
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 depreciation exceeded capital outlays in the current period.	(173,003)
Changes in deferred inflows of resources relating to income taxes do not use current financial resources and are not reported as revenue in the funds.	(40,184)
Difference between accrual and modified accrual in accounting for compensated absences.	11,786
Contingency loss pertains to a long-term payable which is not due in the current period and is not recognized in the funds.	(76,913)
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 660,258</u>

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

**CHEVY CHASE VILLAGE, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
DEFERRED COMPENSATION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2017**

ASSETS	
Cash and cash equivalents	\$ -
Investments, at fair value (Note 7)	2,580,845
Due from other funds	-
Total assets	<u>2,580,845</u>
 DEFERRED OUTFLOWS OF RESOURCES	
	<u>-</u>
 LIABILITIES	
Accounts payable	-
Total liabilities	<u>-</u>
 DEFERRED INFLOWS OF RESOURCES	
	<u>-</u>
 NET POSITION	
Held in trust for pension benefit	2,580,845
Total net position	<u>\$ 2,580,845</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 POSITION
DEFERRED COMPENSATION TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2017**

ADDITIONS

Contributions		
Employer	\$	216,799
Plan member		-
Total contributions		216,799
Investment Income		
Net increase in fair value of investments		230,435
Interest		-
Net investment income		230,435
Total additions		447,234

DEDUCTIONS

Distributions		(182,360)
Administrative expenses		-
		(182,360)
Net increase		264,874
Net position held in trust for pension benefits, beginning of year		2,315,971
Net position held in trust for pension benefits, end of year		\$ 2,580,845

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

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 Chevy Chase 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 and a financial benefit or burden relationship exists. 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. 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 Deferred Compensation 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements (pages 11 – 12)

The statement of net position 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 position should be reported as restricted when constraints placed on net position 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.

Fund Financial Statements (pages 13 – 16)

Separate financial statements are provided for governmental funds (General Fund and Special Revenue Fund), 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, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 – Deferred Compensation Trust Fund

The Village currently has one Fiduciary Fund. The Deferred Compensation 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. Those income taxes that are both measurable and available are recognized as revenue.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues (including a portion of income taxes) are recorded as receivables and deferred inflows of resources. *SafeSpeed* camera revenues are recognized as revenue when received.

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, 2017 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, 2017 consist of *SafeSpeed* camera citations totaling \$375,102. The Village recognizes an allowance for doubtful accounts to ensure that speed camera receivables are not overstated due to uncollectability. At June 30, 2017, the allowance for doubtful accounts in the special revenue fund is \$328,266. The resulting accounts receivable – net of allowances at June 30, 2017 is \$46,836.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 position is 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.

Post-Employment Benefits

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

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of June 30, 2017, the balance of deferred inflows of resources consisted of income taxes in the general fund of \$487,238 and *SafeSpeed* camera citations in the special revenue fund of \$41,467.

Local Tax Reserve Fund

At June 30, 2017, the Village was advised by the State of Maryland that \$487,238 of the Local Tax Reserve Fund was allocable to the Village. The Village recorded receivable and deferred inflows of resources in the amount of \$487,238 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.

Compensated Absences

The Village allows employees to accumulate unused vacation and compensatory (earned in lieu of overtime payout) hours 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, compensatory time and sick leave are accrued when earned by the employee and a liability is recorded in the government-wide financial statements. At June 30, 2017, the liability to Village employees for accrued annual, compensatory and sick leave was \$414,683 based on the wage rates in effect during the fiscal year.

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.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

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

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position 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 and are reduced by liabilities and deferred inflows of resources related to those constraints.

Unrestricted net position – consist of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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, 2017

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 2017. 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, 2017

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 \$5,024,842 (\$4,949,779 unrestricted and \$75,063 restricted) and the bank balances totaled \$5,117,178. 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.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

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, 2017, 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.

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

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

Investments

At June 30, 2017, the Village had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings
MLGIP - unrestricted	\$ 1,217,081	\$ 1,217,081	AAAm
MLGIP - restricted	360	360	AAAm
Total MLGIP	1,217,441	1,217,441	
Certificates of Deposit issued by:			
BB&T Bank	514,640	514,640	N/A
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
First National Bank	250,000	250,000	N/A
SunTrust Bank	250,000	250,000	N/A
Total Certificates of Deposit	2,514,669	2,514,669	
Money Market	3,144	3,144	
	<u>\$ 3,735,254</u>	<u>\$ 3,735,254</u>	
Deferred Compensation Trust Fund - mutual funds	<u>\$ 2,580,845</u>	<u>\$ 2,580,845</u>	N/A

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

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – RECEIVABLES

Accounts receivable are comprised of the following as of June 30, 2017:

Income taxes	\$ 487,238
Other receivables	56,858
Safe Speed Program	<u>46,836</u>
Total	<u><u>\$ 590,932</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, 2017 was \$.0807 per \$100 of assessed value and \$.66 per \$100 of assessed value respectively.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017 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	5,967,474	98,675	-	6,066,149
Village building and improvements	3,096,410	-	-	3,096,410
Furniture and fixtures	300,883	-	-	300,883
Vehicles and equipment	1,314,798	59,706	-	1,374,504
Subtotal	10,679,565	158,381	-	10,837,946
Total capital assets	10,993,456	158,381	-	11,151,837
Accumulated depreciation:				
Street and sidewalk improvements	475,037	150,860	-	625,897
Village building and improvements	1,437,616	60,418	-	1,498,034
Furniture and fixtures	317,038	9,897	-	326,935
Vehicles and equipment	831,428	110,209	-	941,637
Subtotal, accumulated depreciation	3,061,119	331,384	-	3,392,503
Net capital assets	\$ 7,932,337	\$ (173,003)	\$ -	\$ 7,759,334

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 226,269
Recreation and culture	45,299
Public works	35,057
Public safety	24,759
Total government activities depreciation expense	<u>\$ 331,384</u>

As of June 30, 2017, there were no material construction commitments.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – DEFINED CONTRIBUTION PLAN (pages 15-16)

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Village has implemented this standard as of July 1, 2013.

The Board of Managers established a trust-administered, single employer, defined contribution plan effective May 15, 1964, for eligible employees. The Trustee for the plan was changed approximately half-way through the 2015 fiscal year from Principal Financial Group to the International City/County Management Association Retirement Corporation (ICMA-RC).

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 deferred compensation 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 \$209,243 for the year ended June 30, 2017.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 or their beneficiaries 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 cannot be diverted for any other purpose and are not included in the Village's financial statements. The plan is administered by the MassMutual Financial Group. Employee contributions to the plan for the year ended June 30, 2017 were \$39,600.

NOTE 9 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE

In 2015, in *Comptroller of the Treasury of Maryland v. Wynne*, the Supreme Court invalidated a portion of Maryland's personal income tax scheme after determining that it inherently burdened the earnings of individuals who resided in one state but earned income in another.

In response, Maryland has enacted corrective legislation allowing a credit for Maryland residents against personal income tax for income taxed by other states. The Court had ruled that the failure of Maryland law to allow such a credit rendered Maryland's personal income tax scheme unconstitutional.

As of June 2017, the Comptroller's Office states that the fiscal impact of the ruling on the Village will be \$973,477 of refunds for prior years' taxes. Tax revenues are estimated to be reduced \$48,674 each year going forward. As taxpayers have three years to amend their returns, these numbers could increase.

The estimated amount of refunds that must be returned to the State of Maryland has increased by \$76,913 and has been recorded as a loss on the Statement of Activities, which now totals \$973,477. This amount is reflected as a noncurrent liability on the Statement of Net Position, as the Village will not be required to start reimbursing the State until the fourth quarter of fiscal year 2019. The State will collect these funds by withholding a portion of the Village's income tax distributions over a period of five years.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – LONG-TERM LIABILITIES

The Village’s only long-term liabilities relate to accrued sick leave, accrued vacation and accrued compensatory (generated in lieu of overtime) hours. The Village policy is to pay employees meeting certain eligibility requirements one hour wages for each three hours of accumulated sick leave. The following summarizes the changes in long-term liabilities for the year ended June 30, 2017.

<u>Compensated Absences</u>	<u>Balance July 1, 2016</u>	<u>Increase / (Decrease)</u>	<u>Balance June 30, 2017</u>	<u>Due within one year</u>
Accrued sick leave	\$ 217,388	\$ 9,714	\$ 227,102	\$ -
Accrued vacation	176,911	(14,078)	162,833	-
Accrued compensatory time	32,170	(7,422)	24,748	-
Total	<u>\$ 426,469</u>	<u>\$ (11,786)</u>	<u>\$ 414,683</u>	<u>\$ -</u>

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – 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 12 – 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, 2016 and the amounts of settlements have not exceeded coverage for each of the past three years. During the year ended June 30, 2017 the Village paid premiums of \$38,720 to the Trust.

The Village is insured for worker's compensation through the Montgomery County Self-Insurance Program. 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 13 – DEFERRED INFLOWS OF RESOURCES

At June 30, 2017, Chevy Chase Village was advised by the State of Maryland that \$487,238 of the Local Income Tax Reserve Fund was allocable to Chevy Chase Village. The Village recorded receivable and deferred inflows of resources of this amount. The change in this unearned amount has been reflected as revenue in the entity-wide statements in accordance with full accrual accounting.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – WESTERN GROVE PARK

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 Western Grove Park (formerly referred to as the “Wohlfarth Property”) 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.

NOTE 16 – FUND BALANCE REPORTING

Fund balances for the Village’s governmental funds consisted of the following as of June 30, 2017:

All fund balances in the general fund are unassigned. At June 30, 2017, this amount was \$8,558,394

All fund balances in the special revenue fund are restricted. As of June 30, 2017, this amount was \$0.

CHEVY CHASE VILLAGE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, 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, 2017

NOTE 18 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016, effective for financial statements for fiscal years beginning after December 15, 2016.

Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, issued January 2017, effective for financial statements for fiscal years beginning after December 15, 2018.

Statement No. 85, *Omnibus 2017*, issued March 2017, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, effective for financial statements for fiscal years beginning after June 15, 2017.

Statement No. 87, *Leases*, issued June 2017, effective for financial statements for fiscal years beginning after December 15, 2019.

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.

CHEVY CHASE VILLAGE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES - UNAUDITED
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund and Special Revenue Fund		Actual	Variance
	Original Budget	Final Budget		
Revenues				
Taxes	\$ 3,155,500	\$ 3,155,500	\$ 3,748,386	\$ 592,886
Safe speed citations	1,390,000	1,390,000	1,082,455	(307,545)
Intergovernmental	263,000	263,000	269,807	6,807
Interest income	17,500	17,500	37,437	19,937
WSSC reimbursement	-	35,000	23,142	(11,858)
Miscellaneous	177,007	177,007	225,429	48,422
Total Revenues	\$ 5,003,007	\$ 5,038,007	\$ 5,386,656	\$ 348,649
Expenditures				
Administration	\$ 916,251	\$ 911,251	\$ 804,072	\$ 107,179
Public safety	2,171,895	2,171,895	1,977,174	194,721
Public works	984,564	984,564	873,236	111,328
Communications	401,951	401,951	355,730	46,221
Special projects	144,500	157,400	110,483	46,917
Facilities, infrastructure, and equipment acquisitions	429,963	434,963	332,758	102,205
Total Expenditures	\$ 5,049,124	\$ 5,062,024	\$ 4,453,453	\$ 608,571
Excess (deficiency) of revenues over expenditures	\$ (46,117)	\$ (24,017)	\$ 933,203	\$ 957,220

Note: The Village passes one budget with the General and SafeSpeed Funds combined. The schedules on pages 38 through 44 reflect a breakout of separate budgets for the two funds that is used internally for management purposes.

**CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual - General Fund	Budget Favorable (Unfavorable)
REVENUES			
Taxes			
Real estate	\$ 955,500	\$ 1,004,216	\$ 48,716
State income taxes	2,200,000	2,744,170	544,170
Total Taxes	<u>3,155,500</u>	<u>3,748,386</u>	<u>592,886</u>
From Other Governments			
State of Maryland			
Highway user revenue	70,000	66,227	(3,773)
State police aid	108,000	101,142	(6,858)
Law enforcement grant	-	1,914	1,914
Montgomery County			
Duplicative services	85,000	100,524	15,524
Total From Other Governments	<u>263,000</u>	<u>269,807</u>	<u>6,807</u>
Miscellaneous			
Investment income	15,000	36,344	21,344
Building rent	88,057	100,989	12,932
Fees, licenses and permits	49,100	59,873	10,773
WSSC reimbursement	35,000	23,142	(11,858)
Other income	39,850	64,567	24,717
Total Miscellaneous	<u>227,007</u>	<u>284,915</u>	<u>57,908</u>
Total Revenues	<u>\$ 3,645,507</u>	<u>\$ 4,303,108</u>	<u>\$ 657,601</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Final Budget	Actual	Budget Favorable (Unfavorable)
Administration			
Personnel			
Salaries	\$ 483,302	\$ 449,929	\$ 33,373
Employer obligations	42,323	34,473	7,850
Employee benefits	109,636	95,616	14,020
Organizational development	24,950	19,517	5,433
Operations			
Communications	6,000	6,958	(958)
Community relations	26,100	26,755	(655)
General expenditures	45,425	28,196	17,229
Insurance	32,850	31,859	991
Professional services	108,500	70,200	38,300
Service contracts	15,515	8,863	6,652
Supplies	7,500	6,076	1,424
Engineers and other	-	15,901	(15,901)
Equipment maintenance and repair	600	257	343
Computer and technical support	8,550	9,472	(922)
Total Administration	<u>911,251</u>	<u>804,072</u>	<u>107,179</u>
Public Safety			
Personnel			
Salaries	365,347	265,377	99,970
Employer obligations	61,350	34,357	26,993
Employee benefits	120,463	190,543	(70,080)
Organizational development	7,850	3,259	4,591
Operations			
Communications	8,450	8,111	339
General expenditures	47,035	12,240	34,795
Insurance	11,000	10,500	500
Professional services	6,400	-	6,400
Service contracts	5,500	2,544	2,956
Supplies	11,050	5,295	5,755
Vehicle operations	22,500	18,384	4,116
Equipment maintenance and repair	1,250	1,407	(157)
Computer and technical support	3,700	1,130	2,570
Total Public Safety	<u>671,895</u>	<u>553,147</u>	<u>118,748</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2017

	Final Budget	Actual	Budget Favorable (Unfavorable)
Public Works			
Personnel			
Salaries	\$ 414,950	\$ 402,622	\$ 12,328
Employer obligations	48,744	36,925	11,819
Employee benefits	144,700	114,155	30,545
Contracts labor/staff	14,276	10,361	3,915
Organizational development	750	159	591
Operations			
Communications	3,000	2,727	273
Disposal and recycling	285,044	254,493	30,551
General expenditures	3,100	3,367	(267)
Insurance	4,000	3,999	1
Weather events	33,500	8,387	25,113
Small tools and shop supplies	4,000	2,142	1,858
Vehicles - operations	28,000	33,320	(5,320)
Equipment maintenance and repair	500	579	(79)
Total Public Works	<u>984,564</u>	<u>873,236</u>	<u>111,328</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2017

	Final Budget	Actual	Budget Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
Communications			
Personnel			
Salaries	\$ 269,120	\$ 251,313	\$ 17,807
Employer obligations	21,988	19,469	2,519
Employee benefits	90,198	66,880	23,318
Organizational development	225	397	(172)
Operations			
Communications	2,270	2,627	(357)
General expenditures	-	69	(69)
Service contracts	12,500	13,424	(924)
Supplies	2,000	951	1,049
Equipment purchases maintenance and repair	1,000	392	608
Computer and technical support	2,650	208	2,442
Total Communications	<u>401,951</u>	<u>355,730</u>	<u>46,221</u>
Special Projects			
Website redesign	12,900	6,900	6,000
Sidewalk maintenance	-	22	(22)
Street light upgrades	10,000	-	10,000
Street maintenance	111,000	96,963	14,037
Total Special Projects	<u>133,900</u>	<u>103,885</u>	<u>30,015</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND - continued
FOR THE YEAR ENDED JUNE 30, 2017

	Final Budget	Actual	Budget Favorable (Unfavorable)
Facilities, Infrastructure and Equipment Acquisitions			
Village Hall			
Systems & Structures	\$ 17,500	\$ 6,655	\$ 10,845
Insurance	2,375	1,500	875
Service contracts	39,800	39,241	559
Supplies	4,450	3,707	743
Utilities	31,800	37,956	(6,156)
Total Village Hall	<u>95,925</u>	<u>89,059</u>	<u>6,866</u>
Parks, Trees and Greenspace			
Communications	6,800	7,529	(729)
Utilities	1,750	3,047	(1,297)
Equipment repair and maintenance	500	-	500
Supplies	250	27	223
Grounds and amenities	49,000	38,339	10,661
Service contracts	4,038	5,666	(1,628)
Tree programs	145,000	109,215	35,785
Total Parks, Trees, and Greenspace	<u>207,338</u>	<u>163,823</u>	<u>43,515</u>
Streets, Walks, Drains, and Lights			
Utilities	42,500	28,882	13,618
Total Streets, Walks, Drains, and Lights	<u>42,500</u>	<u>28,882</u>	<u>13,618</u>
Vehicle and Equipment Replacement			
Equipment purchase	32,000	-	32,000
Public works			
Capital outlay	51,000	47,898	3,102
Total Vehicle and Equipment Replacement	<u>83,000</u>	<u>47,898</u>	<u>35,102</u>
Total Facilities, Infrastructure, and Equipment Acquisitions	<u>428,763</u>	<u>329,662</u>	<u>99,101</u>
Total Expenditures	<u>\$ 3,532,324</u>	<u>\$ 3,019,732</u>	<u>\$ 512,592</u>

CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Final Budget	Actual	Budget Favorable (Unfavorable)
REVENUES			
Safe Speed citations	\$ 1,390,000	\$ 1,082,455	\$ (307,545)
Investment interest	2,500	1,093	(1,407)
Total Revenues	<u>\$ 1,392,500</u>	<u>\$ 1,083,548</u>	<u>\$ (308,952)</u>

**CHEVY CHASE VILLAGE, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual	Budget Favorable (Unfavorable)
EXPENDITURES			
Department Services			
General government	\$ -	\$ -	\$ -
Police	1,500,000	1,424,027	75,973
Total Department Services	<u>1,500,000</u>	<u>1,424,027</u>	<u>75,973</u>
Facilities, Fleet and Infrastructure			
Parks, Trees & Greenspace	6,200	3,096	3,104
Total Facilities, Fleet and Infrastructure	<u>6,200</u>	<u>3,096</u>	<u>3,104</u>
Special Projects			
Sidewalk - repairs	3,500	1,690	1,810
Crime technology	20,000	4,908	15,092
Total Special Projects	<u>23,500</u>	<u>6,598</u>	<u>16,902</u>
Total Expenditures	<u>\$ 1,529,700</u>	<u>\$ 1,433,721</u>	<u>\$ 95,979</u>

October 9, 2017

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, 2017, and have issued our report thereon dated October 9, 2017. 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 February 14, 2017, 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, 2017 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

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 October 9, 2017.

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.

Very truly yours,

Kindley & Associates, LLC