
**TOWN OF CHEVY CHASE,
MARYLAND**

**Financial Statements and Report
of Independent Certified Public
Accountants**

**For the Years Ended
June 30, 2012 and 2011**

LSWG

Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF CHEVY CHASE, MARYLAND
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June 30, 2012 and 2011

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Mayor and Council
Town of Chevy Chase, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Chevy Chase, Maryland (the Town), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Town's basic financial statements as Exhibits A-1 to A-6 listed in the table of contents. These financial statements are the responsibility of the Town of Chevy Chase, Maryland'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 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 the Town of Chevy Chase Maryland as of June 30, 2012 and 2011, and the respective changes in financial position for the years 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 budgetary comparison information 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 inquires 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.

October 5, 2012

Linton Shafer Warfield & Garrett

TOWN OF CHEVY CHASE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

As management of the Town of Chevy Chase, (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. The MD&A is best understood if read in conjunction with the Town's basic financial statements.

Financial Highlights

The assets of the Town exceeded its liabilities at the close of the 2012 fiscal year by \$6,618,357 (net assets). Of the total net assets, \$5,945,602 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors and \$672,755 is invested in capital assets.

As of June 30, 2012, the Town's governmental funds reported an ending fund balance of \$5,989,142, an increase of \$1,428,773 in comparison with the prior year. Approximately 84% of this total amount, \$5,910,223 is available for spending at the government's discretion (unassigned fund balance). Of the remaining balance of \$78,919, \$1,919 is nonspendable as it is prepaid expense. \$77,000 is committed for fiscal year 2012-2013 budget. The unassigned fund balance of \$5,910,223 is 205% of the total fiscal year 2012 general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets*, Exhibit A-1, presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities*, Exhibit A-2, presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges

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June 30, 2012 and 2011

(business-type activities). The governmental activities of the Town include general government, public safety, streets and roads, sanitation and waste removal, and parks and recreation. The Town does not have any business-type activities.

The government-wide financial statements include only the Town of Chevy Chase because the Town has no component unit relationships with any other agency. The government-wide financial statements can be found in Exhibits A-1 and A-2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Town of Chevy Chase has only a governmental fund, the General Fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of available, spendable resources*, as well as on *balances of those resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The Town adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found in Exhibits A-3 to A-5.

Proprietary funds. The Town does not have a proprietary-type fund (enterprise fund.) *Enterprise funds* are used to report the same functions presented as *business-type activities* in the governmental-wide financial statements.

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Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town has no fiduciary funds.

Summary of significant accounting policies and notes to the financial statements. The summary and notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They are part of the basic financial statements and can be found on pages 1 to 14 of Exhibit A-6.

Other information. In addition to the basic financial statements and accompanying notes this report also presents certain *supplementary information* in Exhibits B-1 and B-2.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the Town, assets exceeded liabilities by \$6,618,357 at the close of the current fiscal year. The Town of Chevy Chase's net assets are divided into two categories - invested in capital assets, net of related debt, and unrestricted net assets. The smaller portion of the Town's net assets (10%) reflects its investment in capital assets net of depreciation (e.g., land, improvements, buildings, machinery, equipment and vehicles). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Unrestricted net assets of the government have a balance of \$5,945,602 (90% of total net assets), which may be used to meet the government's ongoing obligations to citizens and creditors.

For the fiscal years ended June 30, 2012 and 2011 the Town reported the following assets and liabilities:

Town of Chevy Chase's Net Assets

	2012	2011
Assets		
Current and other assets	\$6,155,999	\$ 4,707,440
Capital assets	<u>672,755</u>	<u>551,842</u>
Total assets	<u>6,828,754</u>	<u>5,259,282</u>
Liabilities	<u>210,397</u>	<u>189,996</u>
Net Assets		
Invested in capital assets	672,755	551,842
Unrestricted and undesignated	<u>5,945,602</u>	<u>4,517,444</u>
Total net assets	<u>\$ 6,618,357</u>	<u>\$ 5,069,286</u>

TOWN OF CHEVY CHASE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

The following table indicates the changes in net assets for governmental activities:

Town of Chevy Chase's Change in Net Assets

	2012	2011
Revenues		
Program revenues:		
Charges for services	\$ 98,816	\$ 89,084
Operating grants and contributions	34,397	10,397
General revenues:		
Property and income, taxes levied for general purposes	4,057,529	2,293,576
Miscellaneous	109,273	124,028
Unrestricted investment earnings	<u>1,316</u>	<u>4,368</u>
Total revenues	<u>4,301,331</u>	<u>2,521,453</u>
Expenses		
General government	1,175,519	1,444,441
Public safety	419,201	357,965
Parks and recreation	275,690	325,968
Public works	<u>881,850</u>	<u>671,517</u>
Total expenses	<u>2,752,260</u>	<u>2,799,891</u>
Increase (decrease) in net assets	1,549,071	(278,438)
Net assets, beginning of year	<u>5,069,286</u>	<u>5,347,724</u>
Net assets, end of year	<u>\$ 6,618,357</u>	<u>\$ 5,069,286</u>

Governmental activities: Revenues for the governmental activities were \$4,301,331 while total expenses, net of charges for services, grants and contributions, were \$2,752,260. The increase in net assets for governmental activities was \$1,549,071, which is considerably more than the decrease that was experienced last fiscal year (\$278,438), and can largely be attributed to the following:

Expenditures decreased by \$1,243,995 as compared to last fiscal year, while revenues increased by \$1,560,768 as compared to last years' decrease of \$219,110.

**TOWN OF CHEVY CHASE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's *governmental fund* is to provide information on current inflows, outflows, and balances of available, *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year-end.

The General Fund is the operating fund of the Town of Chevy Chase. At June 30, 2012, the Town's General Fund reported an ending fund balance of \$5,989,142, an increase of \$1,428,773 in comparison with the prior year. Of this amount of \$5,910,223 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. As a measure of the General Fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The total fund balance represents 207% of total General Fund expenditures including capital projects for Town office improvements.

General Fund Budgetary Highlights

Total expenditures were \$263,394 under budget. General government expenditures were \$87,404 under final budget, and capital project expenditures accounted for \$106,923 of the positive budget variance. Investments for streets and roads totaled \$620,322 and were \$99,678 under budget.

Total revenues were \$2,092,563 more than budget to include \$2,087,236 funds in excess of what was expected for income tax revenue.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities as of June 30, 2012, was \$672,755 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, vehicles and furniture and equipment.

**TOWN OF CHEVY CHASE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011**

The following table of the Town's capital assets is listed below. Additional information can be found in Note 3 on page 11 of Exhibit A-6.

**Town of Chevy Chase's Capital Assets
(net of depreciation)**

	2012	2011
Building and improvements	\$ 248,389	\$ 273,364
Vehicles	76,735	88,195
Furniture and Equipment	38,005	55,267
Streets and roads, Parks and Grounds	309,626	135,016
Total	\$ 672,755	\$ 551,842

Major capital asset events during the year ending June 30, 2012 included the following:

Expenditures for street and sidewalk work were \$217,841.

Economic Factors and Next Year's Budgets and Rates

While the State of Maryland realized significant growth in real property assessments, this trend did not have a major impact on the Town's property tax revenues until fiscal year 2009. The delay of the impact was due to the triennial assessment system, which assesses the Town every third year, along with a cap of 10% on residential properties. For fiscal year 2012, the budget for real and personal property taxes is at approximately the same level as fiscal year 2012. Town residents approved adopting a property tax rate of .0105 cent, as recommended by the Town Council, which is the same as the Constant Yield Tax Rate for FY2012.

Income tax revenues for fiscal year 2013 are budgeted at \$2,500,000 which represents an increase of \$650,000 from the FY2012 budget.

General government administration expenditures for fiscal year 2013 are budgeted at \$1,199,000 which represents an increase of \$144,000 from the FY2012 budget.

Public safety expenditures for fiscal year 2013 are budgeted at \$506,000 which represents an increase of \$226,000 from the FY2012 budget.

Capital improvement expenditures for fiscal year 2013 are budgeted at \$355,000 which represents a decrease of \$186,000 from the FY2012 budget.

**TOWN OF CHEVY CHASE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012 and 2011**

Requests for Information

This financial report is designed to provide a general overview of the Town of Chevy Chase's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Town Manager, Town of Chevy Chase, 4301 Willow Avenue, Chevy Chase, Maryland 20815 or send an e-mail to asilverstone@townofchevyCHASE.org.

TOWN OF CHEVY CHASE, MARYLAND
Statements of Net Assets
June 30,

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Assets		
Cash and cash equivalents	\$ 1,489,076	\$ 1,088,810
Investments	4,347,536	3,546,576
Receivables, net	4,200	1,222
Due from other governments	313,268	49,971
Prepaid expenses	1,919	20,861
Capital assets, net	<u>672,755</u>	<u>551,842</u>
 Total Assets	 <u>\$ 6,828,754</u>	 <u>\$ 5,259,282</u>
Liabilities		
Accounts payable	\$ 76,478	\$ 55,400
Performance bonds	57,847	67,086
Accrued salaries	26,900	17,394
Accrued compensated absences	<u>49,172</u>	<u>50,116</u>
 Total Liabilities	 <u>210,397</u>	 <u>189,996</u>
Net Assets		
Invested in capital assets	672,755	551,842
Unrestricted	<u>5,945,602</u>	<u>4,517,444</u>
 Total Net Assets	 <u>6,618,357</u>	 <u>5,069,286</u>
 Total Liabilities and Net Assets	 <u>\$ 6,828,754</u>	 <u>\$ 5,259,282</u>

The accompanying notes are an integral part of these statements.

TOWN OF CHEVY CHASE, MARYLAND
Statement of Program Activities

For the Year Ended June 30, 2012 (with comparative totals for 2011)

Functions/Programs	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets		2011 Total
	Expenses	Charges for Services and Contributions	Operating Grants	Governmental Activities	
Governmental Activities					
General government	\$ 1,153,320	\$ 61,781	\$ -	\$ (1,091,539)	\$ (1,372,251)
Building and zoning	22,199	26,350	-	4,151	(949)
Public works	881,850	1,010	34,397	(846,443)	(660,110)
Public safety	419,201	9,675	-	(409,526)	(341,132)
Parks and recreation	275,690	-	-	(275,690)	(325,968)
Total Governmental Activities	\$ 2,752,260	\$ 98,816	\$ 34,397	(2,619,047)	(2,700,410)
General Revenues					
Property taxes			120,293	120,293	119,462
Income taxes			3,937,236	3,937,236	2,174,114
Intergovernmental			114,093	114,093	105,057
Interest			1,316	1,316	4,368
Loss on disposals on fixed assets			(8,326)	(8,326)	(9,539)
Miscellaneous			3,506	3,506	28,510
Total General Revenues			4,168,118	4,168,118	2,421,972
Changes in Net Assets			1,549,071	1,549,071	(278,438)
Net Assets, Beginning of Year			5,069,286	5,069,286	5,347,724
Net Assets, End of Year			\$ 6,618,357	\$ 6,618,357	\$ 5,069,286

The accompanying notes are an integral part of this statement.

TOWN OF CHEVY CHASE, MARYLAND
Balance Sheets
Governmental Funds
June 30,

	General Fund <u>2012</u>	General Fund <u>2011</u>
Assets		
Cash and cash equivalents	\$ 1,489,076	\$ 1,088,810
Investments	4,347,536	3,546,576
Receivables, net	4,200	1,222
Due from other governments	313,268	49,971
Prepaid expenses	1,919	20,861
Total Assets	<u>\$ 6,155,999</u>	<u>\$ 4,707,440</u>
Liabilities		
Accounts payable	\$ 76,478	\$ 55,400
Performance bonds	57,847	67,086
Accrued salaries	26,900	17,394
Accrued compensated absences - current	4,316	5,969
Deferred property tax	1,316	1,222
Total Liabilities	<u>166,857</u>	<u>147,071</u>
Fund Balances		
Nonspendable		
Prepaid expenses	1,919	20,861
Assigned		
Fund balance for fiscal year 2012-2013 budget	77,000	711,000
Unassigned	5,910,223	3,828,508
Total Fund Balances	<u>5,989,142</u>	<u>4,560,369</u>
Total Liabilities and Fund Balances	<u>\$ 6,155,999</u>	<u>\$ 4,707,440</u>
Reconciliation of Total Governmental Fund Balances To Net		
Assets of the Governmental Activities		
Total Governmental Fund Balances	\$ 5,989,142	\$ 4,560,369
Amounts reported for governmental activities in the statement of net assets are different because:		
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	1,316	1,222
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	672,755	551,842
Compensated absences that are not available to pay for current-period expenditures deferred in the funds.	(44,856)	(44,147)
Net Assets of Governmental Activities	<u>\$ 6,618,357</u>	<u>\$ 5,069,286</u>

The accompanying notes are an integral part of these statements.

TOWN OF CHEVY CHASE, MARYLAND
Statements of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Years Ended June 30, 2012 and 2011

	2012	2011
	General	General
	Fund	Fund
	<u> </u>	<u> </u>
Revenues		
General property taxes	\$ 120,199	\$ 119,600
State shared taxes	3,937,236	2,174,114
Permits, fee and licenses	88,131	71,241
Intergovernmental revenue	148,490	115,454
Miscellaneous	<u>15,507</u>	<u>56,921</u>
 Total Revenues	 <u>4,309,563</u>	 <u>2,537,330</u>
 Expenditures		
General government	1,144,455	1,398,349
Public safety	419,201	357,965
Public works	<u>1,317,134</u>	<u>1,023,070</u>
 Total Expenditures	 <u>2,880,790</u>	 <u>2,779,384</u>
 Excess of Revenues Over (Under) Expenditures	 1,428,773	 (242,054)
 Fund Balance at Beginning of Year	 <u>4,560,369</u>	 <u>4,802,423</u>
 Fund Balance at End of Year	 <u>\$ 5,989,142</u>	 <u>\$ 4,560,369</u>

The accompanying notes are an integral part of these statements.

TOWN OF CHEVY CHASE, MARYLAND
Reconciliation of the Statements of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statements of Activities
For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 1,428,773	\$ (242,054)
Amounts reported for governmental activities in the statement of activities are different because:		
Property tax revenues in the Statement of Activities that (do) do not provide current financial resources (are) are not reported as revenues in the funds.	94	(138)
Sale of property is reported as a gain or loss on sale in the Statement of Activities but is shown as proceeds from sale and expenses are expensed in the governmental funds.	(8,326)	(15,739)
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 is less than (exceeded) capital outlay in the current period.	129,239	(13,731)
Compensated absences in the Statement of Program Activities do (do not) require the use of current financial resources and therefore are (are not) reported as expenditures in governmental funds.	<u>(709)</u>	<u>(6,776)</u>
Net Changes in Net Assets	<u>\$ 1,549,071</u>	<u>\$ (278,438)</u>

The accompanying notes are an integral part of these statements.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town of Chevy Chase (Town) was established as a municipality and incorporated in 1918 under the laws of the State of Maryland. The Town operates under a Council-Manager form of government consisting of a Town Manager and Town Council. The Town provides the following services as authorized by its charter: streets, sanitation, building inspection, public safety and general administration services. The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for established governmental and financial reporting principles. The Town implemented the accounting and financial reporting requirements of GASB Statements No. 34, Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. GASB No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis – A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements – These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets – The Statement of Net Assets displays the financial position of the Town. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government are broken into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities – The Statement of Program Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants.)

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

The financial statements were prepared in accordance with GASB Statement No.14, The Financial Reporting Entity, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with the basis for assessing the accountability of the elected officials. The financial reporting entity consists of the Town of Chevy Chase. There are no organizations for which the Town is financially accountable and there are no component units of the Town.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The reporting model focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the activities of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. The Town has one governmental fund, the general fund, to account for all activities of the government, and does not have any business-type activities at this time.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise fees, utility taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

The General Fund – This is the Town’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. No other funds are currently required.

D. Assets, Liabilities and Net Assets

1. Deposits and Investments

Cash and cash equivalents, which are cash and short-term investments with maturities of three months or less, include cash on hand and demand deposit accounts.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

2. Capital Assets

Capital assets, which include property improvements, furniture, equipment, infrastructure and vehicles are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life of five years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. General infrastructure assets acquired prior to July 1, 2004 are not reported in the basic financial statements. Total infrastructure for June 30, 2012 and 2011 was \$217,841 and \$0, respectively. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure – 10 years
Property improvements – 16-40 years
Furniture and equipment – 5 - 10 years
Vehicles – 10 years

3. Compensated Absences

Town employees are granted vacation in varying amounts based on length of service. Carryover is limited to two hundred and forty (240) hours. Unused vacation pay, if any, is paid with the employee's termination or retirement. Those amounts estimated to be liquidated with expendable available financial resources from the general fund are reported as an expenditure and a fund liability of the general fund.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

4. Property Taxes

Property taxes for the current year were assessed and collected by Montgomery County and subsequently remitted to the Town. Property taxes are assessed on July 1st and are due and payable one half by September 30th and one half by December 31st. All unpaid taxes levied July 1st become delinquent on October 1st and January 1st. The real property tax rate for the Town for fiscal year ended June 30, 2012 and 2011 was .0105 and .0001, respectively, per \$100 of assessed taxable value. The public utilities, corporate and personal property tax rates for the Town for the fiscal year ended June 30, 2012 and 2011 was .001 and .001, respectively, per \$100 of assessed taxable value. Procedures for the collection of delinquent taxes by Montgomery County are provided for in the laws of Maryland.

5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital (net of related debt), restricted and unrestricted.

Invested in capital assets, net of related debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted net assets – This category presents external restrictions imposed by creditors, grantors or laws and regulations of other governments. There are no restricted net assets as of June 30, 2012 and 2011, respectively.

Unrestricted net assets – This category presents the net assets of the Town not included elsewhere.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the actuarially accrued liability for unpaid claims which is prepared based on certain assumptions pertaining to interest rates, inflation rates, etc. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance and the government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between fund balance – total government funds and net assets – governmental activities as reported in the government-wide statement of net assets.

Note 3 – Detailed Notes on All Funds

A. Deposits and Temporary Investments

Deposits

State statutes require all deposits be insured by the Federal Depository Insurance Corporation (FDIC) or fully collateralized. Cash and cash equivalents as presented on the balance sheet and statement of net assets include, deposits (cash) and money market accounts.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

A. Deposits and Temporary Investments (continued)

Deposits (continued)

At June 30, 2012 and 2011 the carrying amount of the Town's cash and deposits totaled \$1,489,076 and \$1,088,810 and the bank balances totaled \$1,503,497 and \$1,115,906, respectively. Of the bank balances at June 30, 2012 and 2011, \$261,759 and \$261,752 was covered by federally depository insurance, respectively, and the remaining balance was covered by collateral held by the bank's trust department in the Town's name.

Investments

The Town investments are pooled in the Montgomery County Pooled Investment Fund. These funds are part of collateralized investment pools. The Fund is managed by Montgomery County, with oversight by the Investment Committee and in compliance with the Annotated Code of Maryland. The average maturity of the portfolio is generally less than six months. Deposits are fully insured or collateralized. Investment income during the year is allocated to pool participants based upon their average equity in the pool. The carrying amount and fair value of the Fund at June 30, 2012 and 2011 is \$4,347,536 and \$3,546,576, respectively.

Credit Risk

Town investment policy does not permit investments in commercial paper or corporate bonds, except under state law in the state investment pool. The Town invests in the Montgomery County Pooled Investment Fund (the Fund). The Fund seeks to maintain a constant yield value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

B. Receivables

Receivables as of June 30, 2012 and 2011 for the Town's individual major and non-major governmental funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>2012</u>	<u>2011</u>
Receivables:		
Property taxes	\$ -	\$ 1,222
Other	4,200	-
	4,200	1,222
Gross Receivables	4,200	1,222
Less: allowance for uncollectibles	-	-
	4,200	1,222
Total Receivables - Net	\$ 4,200	\$ 1,222

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

C. Due From Other Governments

Due from other governments represents accrued revenue at June 30, 2012 and 2011 consisting of the following:

	<u>2012</u>	<u>2011</u>
Primary Government		
State		
General Fund	\$ 295,198	\$ 48,995
Total State	295,198	48,995
County		
General Fund	18,070	976
Total County	18,070	976
Total Primary Government	\$ 313,268	\$ 49,971

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

D. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

E. Fund Balance

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable – such as fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable and property held for resale.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the Mayor and council of the Town of Chevy Chase.

Assigned fund balance – includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance – is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Committed Fund Balance

The Town's Committed Fund Balance is fund balance reporting because of motions that passed at Town Council meetings.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

E. Fund Balance (continued)

Assigned Fund Balance

The Town's Assigned Fund Balance is fund balance reporting occurring by the Mayor and Town Council under the direction of the Town Manager.

The Town's fiscal year 2012-2013 adopted budget contains a projected use of \$77,000 of fund balance for the projected operating deficit, as reported in the 2012-2013 adopted budget summary dated April 11, 2012 and revised on May 9, 2012. Consequently, \$77,000 of next years projected operating fund balance is assigned fund balance.

Fund Balance For Next Year's Operations	<u>\$ 77,000</u>
Total Assigned Fund Balance	<u><u>\$ 77,000</u></u>

Order of Fund Balance Spending Policy

The Town's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year.

First non-spendable fund balance is determined. Then restricted fund balances for specific purposes are determined, followed by committed fund balance and assigned fund balance. Unassigned fund balance cannot fall to a negative balance.

TOWN OF CHEVY CHASE MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

F. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning</u> <u>7/1/2011</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending</u> <u>6/30/2012</u>
Governmental Activities				
Capital assets, being depreciated				
Building improvements	\$ 466,195	\$ -	\$ -	\$ 466,195
Vehicles	114,603	-	-	114,603
Furniture and equipment	194,865	5,037	(24,599)	175,303
Streets and roads	<u>255,748</u>	<u>217,841</u>	<u>-</u>	<u>473,589</u>
Total capital assets being depreciated	<u>1,031,411</u>	<u>222,878</u>	<u>(24,599)</u>	<u>1,229,690</u>
Less accumulated depreciation for:				
Building improvements	(192,831)	(24,975)	-	(217,806)
Vehicles	(26,408)	(11,460)	-	(37,868)
Furniture and equipment	(139,598)	(13,973)	16,273	(137,298)
Streets and roads	<u>(120,732)</u>	<u>(43,231)</u>	<u>-</u>	<u>(163,963)</u>
Total accumulated depreciation	(479,569)	(93,639)	16,273	(556,935)
Total capital assets, being depreciated, net	<u>551,842</u>	<u>129,239</u>	<u>(8,326)</u>	<u>672,755</u>
Governmental activities capital assets, net	<u>\$ 551,842</u>	<u>\$ 129,239</u>	<u>\$ (8,326)</u>	<u>\$ 672,755</u>

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities	<u>2012</u>	<u>2011</u>
General government	\$ 35,391	\$ 39,316
Public works	56,077	36,373
Public safety	-	-
Recreation	<u>2,171</u>	<u>2,171</u>
Total depreciation expenses, governmental activities	<u>\$ 93,639</u>	<u>\$ 77,860</u>

TOWN OF CHEVY CHASE MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

G. Long-Term Debt

Changes in Long-Term Debt are as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>
Accrued compensated absences	\$ 44,147	\$ 709	\$ -	\$ 44,856
	<u>\$ 44,147</u>	<u>\$ 709</u>	<u>\$ -</u>	<u>\$ 44,856</u>

Note 4 – Commitment and Contingencies

A. Risk Management

The Town is exposed to various risks of loss related to torts, theft of or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the Town carries insurance through Local Government Insurance Trust. Premiums for coverages are charged to the Town's general fund, with no provision made for claim liability in addition to premiums unless an assessment is made by the Trust. Claims over the past three years have been significantly less than that amount.

The agreement with the pool provides that the pool will be self-sustaining through member premiums, and will reinsure through commercial companies for claims in excess of \$1,000,000. The Town continues to carry commercial insurance for health, life, short-term disability and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

B. Retirement Plans

The Town participates in three retirement plans. The first plan is the Employees Retirement System of Montgomery County (the Plan), which is a cost-sharing, multiple employer defined benefit plan which covers all full time employees of the Town hired prior to June 30, 1996. At June 30, 2012 and 2011 three employees participated in the plan.

TOWN OF CHEVY CHASE MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 4 – Commitment and Contingencies (continued)

B. Retirement Plans (continued)

The policy of the Town is to make contributions at the rate required by the Plan, which was 24.17% and 24.9% of eligible employee's salaries for the fiscal years ended June 30, 2012 and 2011, respectively. In addition, employees had 4% withheld from their wages. The amounts withheld are forwarded to the plan.

The second plan, for those employees hired after June 30, 1996, is the Montgomery County Retirement Savings Plan, which is a cost-sharing, multiple employer defined contribution plan. As of June 30, 2012, there were three employees enrolled in the plan. For the years ended June 30, 2012 and 2011, the required contribution was 6% and 8% respectively, plus a 0.1% administrative fee. For the years ended June 30, 2012 and 2011, the administrative fee was waived by the County. The employees also have 3% withheld from wages and forwarded to the plan.

The third plan is the Guaranteed Retirement Income Plan (GRIP). Those eligible for the GRIP are full time employees hired between December 31, 2008 and July 1, 2009 enrolled in the Retirement Savings Plan (RSP) who are not public safety employees and full and part time employees hired on or after October 1, 1994 who participate in the RSP and who are not public safety employees. For the years ended June 30, 2012 and 2011 employer contributions were 5.25% and 6.53% respectively, of employee's regular pay, and employees may contribute 4% of regular pay up to Social Security Wage Base, and 8% of pay in excess of Social Security Wage Base. At June 30, 2012 there was one employee participating in the plan. Pension expense for the years ended June 30, 2012 and 2011 was \$79,964 and \$86,851, respectively.

TOWN OF CHEVY CHASE MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 5 – Leases

The Town rents office space from Montgomery County under a 35 year lease that began in 1986. During the time period that general obligation bonds were outstanding, no rent was due under the lease. Once the bonds had completely matured, in 2002, the Town began paying rent. As of July 1, 2003, rent was \$795 per month, with annual inflationary adjustments.

During the 2004 fiscal year, the Town entered into an agreement with Montgomery County (the County), which assigned additional space in the County owned Leland Center where the Town offices are located. In consideration of the transfer of office space to the Town, the Town agreed to construct an addition to the Leland Center for use by the County.

The Town agreed to bear the entire cost of the construction of the addition and the incorporation of the additional space into the Town offices. The County agreed to suspend the lease payments for the remaining 16 years of the lease.

The project was completed in 2005 and rent payments ceased.

Note 6 – Subsequent Events

Management has evaluated subsequent events through October 5, 2012, the date that the financial statements were available to be issued. There were no significant events to report.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF CHEVY CHASE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Revenues				
Taxes				
Local				
Real property tax	\$ 112,000	\$ 112,000	\$ 120,199	\$ 8,199
Total Taxes - Local	112,000	112,000	120,199	8,199
State Shared				
Income taxes	1,850,000	1,850,000	3,937,236	2,087,236
Total Taxes - State Shared	1,850,000	1,850,000	3,937,236	2,087,236
Total Taxes	1,962,000	1,962,000	4,057,435	2,095,435
Licenses and Permits				
Variance application fee	10,000	10,000	2,400	(7,600)
Permit fees	35,000	35,000	23,950	(11,050)
Cable franchise tax	33,000	33,000	61,781	28,781
Total Licenses and Permits	78,000	78,000	88,131	10,131
Intergovernmental Revenues				
County revenue sharing	124,000	124,000	113,583	(10,417)
State highway user tax	34,000	34,000	34,397	397
Financial corporation -bank shares	500	500	510	10
Total Intergovernmental Revenues	158,500	158,500	148,490	(10,010)
Miscellaneous				
Special trash pickup	1,000	1,000	1,010	10
Miscellaneous revenues	2,500	2,500	3,506	1,006
Parking fines and meters	9,000	9,000	9,675	675
Municipal citations	1,000	1,000	-	(1,000)
Interest	5,000	5,000	1,316	(3,684)
Total Miscellaneous	18,500	18,500	15,507	(2,993)
Total Revenues	\$ 2,217,000	\$ 2,217,000	\$ 4,309,563	\$ 2,092,563

Continued

TOWN OF CHEVY CHASE, MARYLAND
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

Expenditures	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
General Government				
Administration:				
Salaries and benefits	\$ 788,822	\$ 797,822	\$ 789,345	\$ 8,477
Services and supplies	266,000	266,000	238,038	27,962
Civic affairs and constituent services:				
Services and supplies	163,000	163,000	112,035	50,965
Total General Government	<u>1,217,822</u>	<u>1,226,822</u>	<u>1,139,418</u>	<u>87,404</u>
Public Safety				
Parking control, building inspections, services and supplies	280,000	405,400	419,201	(13,801)
Total Public Safety	<u>280,000</u>	<u>405,400</u>	<u>419,201</u>	<u>(13,801)</u>
Public Works				
Sanitation and waste removal:				
Household trash	199,500	199,500	201,258	(1,758)
Yard trash	17,500	17,500	15,680	1,820
Leaf collection	88,000	88,000	72,000	16,000
Recycling	54,000	56,000	50,833	5,167
Streets and roads	126,500	131,481	83,522	47,959
Parks, grounds and trees	203,500	258,481	244,801	13,680
Total Public Works	<u>689,000</u>	<u>750,962</u>	<u>668,094</u>	<u>82,868</u>
Total Expenditures Before Capital				
Projects Expenditures	<u>2,186,822</u>	<u>2,383,184</u>	<u>2,226,713</u>	<u>156,471</u>
Capital Project Expenditures				
General government	1,000	6,000	5,037	963
Streets and roads	505,000	720,000	620,322	99,678
Parks, grounds and trees	35,000	35,000	28,718	6,282
Total Capital Project Expenditures	<u>541,000</u>	<u>761,000</u>	<u>654,077</u>	<u>106,923</u>
Total Expenditures After Capital				
Project Expenditures	<u>\$ 2,727,822</u>	<u>\$ 3,144,184</u>	<u>\$ 2,880,790</u>	<u>\$ 263,394</u>

The accompanying notes are an integral part of this schedule.

TOWN OF CHEVY CHASE, MARYLAND
Notes to Required Supplemental Information
June 30, 2012

Note 1 – Summary of Significant Budget Policies

The Town Council annually adopts a budget for the General Fund of the primary government. All appropriations are legally controlled at the departmental level for the General Fund. On April 13, 2011 the Town Council approved the original adopted budget and on May 9, 2012 approved the revised budget reflected in the financial statements for the fiscal year ending June 30, 2012.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Note 2 – Material Violations

There were no material violations of the annual appropriated budgets for the General Fund for the fiscal years ended June 30, 2012. In addition, there were no excesses of budgetary expenditures for that period.