

**VILLAGE OF
NORTH CHEVY CHASE, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2018**

VILLAGE OF NORTH CHEVY CHASE

TABLE OF CONTENTS

JUNE 30, 2018

	Page
INDEPENDENT AUDITOR’S REPORT	1 - 3
REQUIRED SUPPLEMENTARY INFORMATION	
) Management’s Discussion and Analysis	4 - 9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
) Statement of Net Position	10
) Statement of Activities	11
Fund Financial Statements	
) Balance Sheet – Governmental Funds	12
) Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
NOTES TO BASIC FINANCIAL STATEMENTS	14 – 27
REQUIRED SUPPLEMENTARY INFORMATION	
) Schedule of Revenues and Expenditures – Budget and Actual (non-GAAP budgetary basis) – General Fund and Capital Projects Fund – unaudited	28
SUPPLEMENTAL SCHEDULES	
) Schedule of Revenues – Budget (GAAP basis) and Actual General Fund and Capital Projects Fund	29
) Schedule of Expenditures – Budget (non-GAAP basis) and Actual General Fund and Capital Projects Fund	30

Independent Auditor's Report

Honorable Chairman and Members of the Village Council
Village of North Chevy Chase, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Village of North Chevy Chase, Maryland, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Village's basic financial statements 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 from 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 entity'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 entity'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 audit 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 of the Village of North Chevy Chase, Maryland, as of June 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, there was a prior period accounting error pertaining to fixed assets, resulting in an overstatement of previously reported net position and fixed assets, and an understatement of previously reported expenses. As a result of the error the Village has restated beginning Net Position by (\$16,286) from \$1,979,103 to \$1,962,817. Our opinion is not modified with respect to this matter.

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 9 and 28 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 the Village of North Chevy Chase, Maryland's financial statements as a whole. The schedule of revenues – budget and actual (GAAP basis) and the schedule of expenditures – budget and actual (non-GAAP basis) on pages 29 through 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues – budget and actual and the schedule of expenditures – budget and actual 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.

Rindley & Associates, LLC

December 19, 2018

**VILLAGE OF NORTH CHEVY CHASE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Our discussion and analysis of the Village of North Chevy Chase's financial performance provides an overview of the Village's financial activities for the year ended June 30, 2018. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As a result of the year's activities, the Village's net position increased by \$146,956 and the Village's fund balance increased by \$125,410. This includes both operating and capital expenditures for FY 2018.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements that provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements report the Village's operation in more detail than the government-wide statements by providing information about the Village's most significant funds and individual parts.

Reporting the Village as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Village's finances is, "Is the Village as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets plus deferred outflows and liabilities plus deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report changes in the Village's net position. You can think of the Village's *net* position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) as one way to measure the Village's financial health or position. Over time, increases or decreases in the Village's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Village's property tax base and the condition of the Village's roads to assess the overall health of the Village.

**VILLAGE OF NORTH CHEVY CHASE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

In the Statement of Net Position and the Statement of Activities, we divide the Village into two kinds of activities:

- J) Governmental activities – The Village's basic services are reported here, including general administration, public works, and sanitation. Taxes, franchise fees, fines, and state and federal grants finance these activities.
- J) Business-type activities – The Village currently has no business-type activities.

Reporting the Village's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the Village as a whole. Currently, the Village only has governmental funds.

- J) Government funds – The Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation to the right of the fund financial statements.

**VILLAGE OF NORTH CHEVY CHASE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The Village as a Whole

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Village's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General Government	Revenue Sharing Grants
Public Works	Highway User Revenues

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted to a specific purpose.

**VILLAGE OF NORTH CHEVY CHASE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Governmental-Wide Financial Information

The following is selected information as of June 30, 2018, and for the previous year, which is provided for comparison purposes.

	Governmental Activities	
	2017	2018
Current assets	\$ 1,292,045	\$ 1,439,825
Capital assets	716,868	704,063
Total assets	2,008,913	2,143,888
Deferred outflows	-	-
Total deferred outflows and assets	2,008,913	2,143,888
Current liabilities	7,573	12,486
Long-term liabilities	22,237	21,629
Total liabilities	29,810	34,115
Deferred inflows	-	-
Net position		
Net investment in capital assets	716,868	704,063
Restricted	-	-
Unrestricted	1,262,235	1,405,710
Total net position	1,979,103	2,109,773
Total liabilities, deferred inflows and net position	2,008,913	2,143,888
Program revenues		
Charges for services	-	-
Operating grants and contributions	36,202	30,336
General revenues		
Income taxes	246,408	345,462
Property taxes	88,000	75,646
Total general revenues	346,577	444,579
Transfers	-	-
Contingency loss	(438)	(530)
Total revenues and transfers	382,341	474,385
Expenses		
General government	71,419	63,985
Public works	165,129	263,444
Total expenses and transfers	236,548	327,429
Change in net position	145,793	146,956
Net position, beginning of year - restated for 2018	1,833,310	1,962,817
Net position, end of year	\$ 1,979,103	\$ 2,109,773

**VILLAGE OF NORTH CHEVY CHASE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Business-type Activities

The Village currently has no business-type activities.

The Village's Funds

The following schedule presents a summary of general revenue and expenditures for the fiscal year ended June 30, 2018 and percentage of increases and decreases in relation to the prior year.

	FY2018 Amount	Percent of Total	Increase (Decrease) From FY17
Revenues			
Taxes	\$ 402,513	88%	\$ 68,728
Intergovernmental	30,336	7%	(5,866)
Investment and interest income	15,168	3%	10,344
Miscellaneous	8,303	2%	958
Total Revenue	\$ 456,320	100%	\$ 74,164
Expenditures			
General government	\$ 63,985	19%	\$ (7,434)
Public works	193,120	59%	85,064
Capital outlays	73,805	22%	(57,712)
Total Expenditures	\$ 330,910	100%	\$ 19,918

Tax revenue increased primarily due to taxpayer incentives, after the 2016 election, to shift income from tax year 2016 into 2017, hoping for tax relief. An offsetting impact also occurred from 2017 into 2018 with the actual passage of tax legislation, however the magnitude of this impact is unknown at this time. There is also a considerable amount of non-economic factors that have been impacting collections since the end of 2016.

**VILLAGE OF NORTH CHEVY CHASE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

General Fund Budgetary Highlights

The budget reflected capital expenditures for FY2018. The budget was passed to reflect expenditures for FY2018 and was not amended.

Capital Asset and Debt Administration

Capital Assets

The Village had put in new sidewalks on Kenilworth Ave., replaced diverters, and installed a drainage swale at Stewart/Montgomery Ave. Significant tree maintenance was also undertaken due to drought followed by significant rain. Several trees were removed, and new trees planted.

Debt

At year end, the Village's only debt liability is \$22,767 due to the State of Maryland, as a result of the 2015 *Comptroller of Maryland v. Wynne* case. See Note 10 for more information.

Economic Factors and Next Year's Budgets and Rates

The Village could see no appreciable change in revenue or expenses.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village Manager at P. O. Box 15887, Chevy Chase, Maryland 20815 or via email at nccinfo@northchevyCHASE.org.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 230,843	\$ 230,843
Investments	1,139,737	1,139,737
Taxes receivable	68,224	68,224
Account receivable	1,021	1,021
Total Current Assets	<u>1,439,825</u>	<u>1,439,825</u>
Noncurrent Assets		
Net capital assets	704,063	704,063
Total Noncurrent Assets	<u>704,063</u>	<u>704,063</u>
TOTAL ASSETS	<u>2,143,888</u>	<u>2,143,888</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 2,143,888</u>	<u>\$ 2,143,888</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 11,348	\$ 11,348
Current portion of long-term debt	1,138	1,138
Total Current Liabilities	<u>12,486</u>	<u>12,486</u>
Noncurrent Liabilities		
Due to State (Note 10)	21,629	21,629
Total Noncurrent Liabilities	<u>21,629</u>	<u>21,629</u>
TOTAL LIABILITIES	<u>34,115</u>	<u>34,115</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	704,063	704,063
Unrestricted	1,405,710	1,405,710
TOTAL NET POSITION	<u>2,109,773</u>	<u>2,109,773</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,143,888</u>	<u>\$ 2,143,888</u>

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

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government	
					Governmental Activities	Total
Primary Government						
Governmental Activities:						
General government	\$ 63,985	\$ -	\$ 25,195	\$ -	\$ (38,790)	\$ (38,790)
Public works	263,444	-	5,141	-	(258,303)	(258,303)
Total Governmental Activities	327,429	-	30,336	-	(297,093)	(297,093)
 Total Primary Government	 \$ 327,429	 \$ -	 \$ 30,336	 \$ -	 \$ (297,093)	 \$ (297,093)
			General revenues:			
			Taxes			
			Income taxes		345,462	345,462
			Property taxes		75,646	75,646
			Interest and investment earnings		15,168	15,168
			Miscellaneous		8,303	8,303
			Total General Revenues		444,579	444,579
			Contingency loss (Note 10)		(530)	(530)
			Change in Net Position		146,956	146,956
			Net Position, beginning of year - restated		1,962,817	1,962,817
			Net Position, end of year		\$ 2,109,773	\$ 2,109,773

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

**VILLAGE OF NORTH CHEVY CHASE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents - unrestricted	\$ 230,843	\$ -	\$ 230,843
Investments	100,132	1,039,605	1,139,737
Accounts receivable	1,021	-	1,021
Taxes receivable	68,224	-	68,224
TOTAL ASSETS	<u>400,220</u>	<u>1,039,605</u>	<u>1,439,825</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 400,220</u>	<u>\$ 1,039,605</u>	<u>\$ 1,439,825</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 11,348	\$ -	\$ 11,348
TOTAL LIABILITIES	<u>11,348</u>	<u>-</u>	<u>11,348</u>
DEFERRED INFLOWS OF RESOURCES	<u>68,224</u>	<u>-</u>	<u>68,224</u>
FUND BALANCES			
Committed	-	1,039,605	1,039,605
Unassigned	320,648	-	320,648
TOTAL FUND BALANCES	<u>320,648</u>	<u>1,039,605</u>	<u>1,360,253</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 400,220</u>	<u>\$ 1,039,605</u>	<u>\$ 1,439,825</u>

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2018**

<i>Total Governmental Fund Balances</i>	\$ 1,360,253
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	704,063
Long-term liabilities, including compensated absences and due to state are not due and payable in the current period and therefore are not reported in the funds.	(22,767)
Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	<u>68,224</u>
<i>Net Position of Governmental Activities</i>	<u>\$ 2,109,773</u>

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

**VILLAGE OF NORTH CHEVY CHASE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Taxes	\$ 402,513	\$ -	\$ 402,513
Intergovernmental	30,336	-	30,336
Investment income:			
Interest	-	15,168	15,168
Miscellaneous	8,303	-	8,303
Total Revenues	<u>441,152</u>	<u>15,168</u>	<u>456,320</u>
Expenditures			
Current			
General government	63,985	-	63,985
Public works	193,120	-	193,120
Capital outlay	-	73,805	73,805
Total Expenditures	<u>257,105</u>	<u>73,805</u>	<u>330,910</u>
Excess (deficiency) of revenues over expenditures	184,047	(58,637)	125,410
Other financing sources (uses)			
Operating transfers in (out)	(371,414)	371,414	-
Operating transfers out	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(187,367)	312,777	125,410
Fund balance, beginning of year	<u>508,015</u>	<u>726,828</u>	<u>1,234,843</u>
Fund balance, end of year	<u>\$ 320,648</u>	<u>\$ 1,039,605</u>	<u>\$ 1,360,253</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, 2018**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 125,410
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,481
Increases in deferred inflows of resources relating to state income taxes do not provide current financial resources and are not reported as revenue in the governmental funds.	18,595
Contingency loss pertains to a long-term liability that is not reflected in the funds. See Note 10.	(530)
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 146,956</u>

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

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Until January 1996, the Village of North Chevy Chase was a Special Taxing District as defined by Maryland statutes. Effective January 1996, the Village became a municipal corporation governed by an elected Village council consisting of a Chair, Vice Chair, Secretary, Treasurer, and Member-at-Large and provides the following services as authorized by its charter: highways and streets, sanitation, public improvements and general administrative services. The Village is located within Montgomery County, Maryland.

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

In evaluating how to define the Village of North Chevy Chase, for financial reporting purposes, management has considered all potential component units. The decision whether 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 governmental funds include the General Fund and the Capital Projects 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 Capital Projects Fund accounts for the acquisition of fixed assets or construction of major capital projects.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

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 funds). This is the same approach used in the preparation of the proprietary fund financial statements 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 are 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.

Separate financial statements are provided for governmental funds, proprietary funds, if any, and fiduciary funds, if any, 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.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Financial Statements

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

Governmental Funds

Village activities pertaining to general government, sanitation, public improvements and highways and streets 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.
-) Capital Projects Fund – The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for all governmental fund types.

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, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred inflows of resources.

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

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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 funds.

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 ten months or less from the date of acquisition.

Investments

Investments held at June 30, 2018, 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.

Receivables

The balance of receivables at June 30, 2018, was \$69,245, consisting of highway user revenue and taxes receivable. Receivables are deemed collectible in full.

Inventory of Supplies

Inventories, if any, 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.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, the balance of deferred inflows of resources per the fund financial statements consisted of income taxes of \$68,224. The balance in the governmental-wide financial statements as of June 30, 2018, is \$0.

Local Tax Reserve Fund

At June 30, 2018, the Village was advised by the State of Maryland that \$68,224 of the Local Tax Reserve Fund was allocable to the Village. The Village recorded receivable and deferred inflows of resources in the amount of \$68,224 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.

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. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as bridges, 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 are 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, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 20 years.

Restricted Reserves

The Village uses restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 its 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 – all other 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.

Prior Period Accounting Error

There was a prior period accounting error pertaining to fixed assets, resulting in an overstatement of previously reported net position and fixed assets, and an understatement of previously reported expenses. As a result of the error the Village has restated beginning Net Position by (\$16,286) from \$1,979,103 to \$1,962,817.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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:

Annual budgets are adopted for all Village funds. The Village Council may subsequently amend the budget and the budget was not amended during fiscal year 2018. For day-to-day management control, expenditures may not exceed budget at the department level. The Village prepares an annual operating budget on a basis not consistent with generally accepted accounting principles. See Note 13 for a reconciliation of the budget to generally accepted accounting principles.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the Village to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the Village can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The Village's deposits are insured 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.

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 collateral valued at 102 percent of principal and accrued interest. Collateral is to be held by the Village, its agent, or by the pledging financial institution's trust department or agent in the name of the Village.

At year-end, the carrying amounts of the Village's deposits were \$230,443 and the bank balances totaled \$244,026. Of the bank balances, the entire amount was insured by Federal Depository Insurance Corporation (FDIC). 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 has no policy regarding credit risk.

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 to the extent practicable, investments are matched with anticipated cash flows.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village has a policy of not exceeding the FDIC insurance limits at any single institution.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

Investment Policies

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. Village policy provides that collateral is to be held by the Village, its agent, or by the pledging financial institution's trust department or agent in the name of the Village.

Generally, the Village's investing activities are managed by the Treasurer. Investing is performed in accordance with investment policies adopted by the Village Council complying with State Statutes and the Village Charter. Village funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks); and 5) Maryland Local Government Investment Pool.

Investments

The Village has invested at June 30, 2018, \$1,039,605 in UBS CD's and Money Market, and \$100,132 in United States Savings Bonds.

As of June 30, 2018, the Village had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
UBS Money Market and CD's	\$ 1,039,605	\$ 1,039,605	AAAm
US Savings Bonds	100,132	30,000	N/A
	<u>\$ 1,139,737</u>	<u>\$ 1,069,605</u>	

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

NOTE 4 - RECEIVABLES

As of June 30, 2018, the balance of accounts receivable was \$69,245.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – PROPERTY TAX

Property taxes are levied as of July 1 on property values as of the same date. Village residents pay all property taxes to Montgomery County and the County remits the monies to the Village. Tax billings are considered delinquent after September 30. Properties with delinquent taxes may be sold at auction. When taxes are overdue, a lien is placed against the property. The real and personal property tax rates for the year ended June 30, 2018 were \$0.045 and \$0.13 per \$100 of assessed value, respectively.

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Subtotal	-	-	-	-
Depreciable capital assets:				
Streets and improvements	1,438,304	73,805	-	1,512,109
Subtotal	1,438,304	73,805	-	1,512,109
Total capital assets	1,438,304	73,805	-	1,512,109
Accumulated depreciation:				
Streets and improvements	737,722	70,324	-	808,046
Subtotal, accumulated depreciation	737,722	70,324	-	808,046
Net capital assets	\$ 700,582	\$ 3,481	\$ -	\$ 704,063

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ -
Public works	70,324
Total government activities	<u>70,324</u>
depreciation expense	<u>\$ 70,324</u>

As of June 30, 2018, the Village has no construction commitments

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – RETIREMENT PLAN

The Village does not have a retirement plan.

NOTE 8 – 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, automobile, employee health, police and public officials' legal liability insurance coverage.

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, 2018 and the amount of settlements has not exceeded coverage for each of the past three years.

NOTE 9 – 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.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – 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 2018, the Comptroller’s Office estimated that the fiscal impact of the ruling on the Village will be approximately \$22,767 of refunds for prior years’ taxes, and a minimal reduction in income tax revenue each year going forward.

The change in the estimated amount of refunds to be paid has been recorded as a contingency loss on the Statement of Activities, and as a 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, and will be repaid over a period of five years as a reduction in income tax distribution. The changes in this liability are as follows:

	Balance June 30, 2017	Added During Year	Retired During Year	Balance June 30, 2018	Amount Due Within 1 Year
State of Maryland	\$ 22,237	\$ 530	\$ -	\$ 22,767	\$ 1,138

The annual deductions will be as follows:

FY	Amount
2018	\$ 1,138
2019	4,553
2020	4,553
2021	4,553
2022	4,553
Thereafter	3,417
	\$ 22,767

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – CONCENTRATIONS

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

NOTE 12 – FUND BALANCE REPORTING

Fund balances for the Village’s governmental funds consisted of the following as of June 30, 2018:

Committed Fund Balances

At June 30, 2018, the committed fund balance in the Capital Projects Fund is \$1,039,605.

Unassigned Fund Balances

All fund balances in the General Fund are unassigned. At June 30, 2018, this amount was \$320,648.

NOTE 13 – RECONCILIATION OF NON-GAAP BUDGET

The financial statements and notes conform to GAAP. The budget is prepared on a basis not consistent with GAAP. The budget deviates from GAAP because it includes a transfer to reserves as a budgeted item. The reconciliation between the non-GAAP budget and GAAP is as follows:

Budgeted excess (deficiency) of revenues over (under) expenditures - non-GAAP basis	\$ 43,970
Transfer to reserves	<u>48,000</u>
Budgeted excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u><u>\$ 91,970</u></u>

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

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 2018, effective for financial statements for fiscal years beginning after December 15, 2018.

Statement No. 85, *Omnibus 2018*, issued March 2018, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2018, effective for financial statements for fiscal years beginning after June 15, 2018.

Statement No. 87, *Leases*, issued June 2018, effective for financial statements for fiscal years beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, issued April 2018, effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, effective for reporting periods 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.

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund and Capital Projects Fund		Actual	Variance
	Original Budget	Final Budget		
Revenues				
Taxes	\$ 278,505	\$ 278,505	\$ 402,513	\$ 124,008
Intergovernmental	39,195	39,195	30,336	(8,859)
Interest	3,720	3,720	15,168	11,448
Miscellaneous	6,500	6,500	8,303	1,803
Total Revenues	\$ 327,920	\$ 327,920	\$ 456,320	\$ 128,400
Expenditures				
General government	\$ 76,450	\$ 76,450	\$ 63,985	\$ 12,465
Public works	157,500	157,500	193,120	(35,620)
Capital outlays	2,000	2,000	73,805	(71,805)
Transfer to reserves	48,000	48,000	-	48,000
Total Expenditures	\$ 283,950	\$ 283,950	\$ 330,910	\$ (46,960)

SUPPLEMENTAL SCHEDULES

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND AND CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Final Budget	Actual	Budget Favorable (Unfavorable)
REVENUES			
Taxes			
Real estate	\$ 67,470	\$ 75,646	\$ 8,176
State income taxes	211,035	326,867	115,832
Total Taxes	<u>278,505</u>	<u>402,513</u>	<u>124,008</u>
From Other Governments			
State of Maryland			
Highway user revenue	14,000	5,141	(8,859)
Montgomery County			
Revenue sharing	25,195	25,195	-
Total From Other Governments	<u>39,195</u>	<u>30,336</u>	<u>(8,859)</u>
Miscellaneous			
Miscellaneous receipts	2,000	2,361	361
Interest income	3,720	15,168	11,448
Cable TV fees	4,500	5,942	1,442
Total Miscellaneous	<u>10,220</u>	<u>23,471</u>	<u>13,251</u>
Total Revenues	<u>\$ 327,920</u>	<u>\$ 456,320</u>	<u>\$ 128,400</u>

VILLAGE OF NORTH CHEVY CHASE, MARYLAND
SCHEDULE OF GENERAL EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND AND CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Final Budget	Actual	Budget Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
General Government Expenditures			
Personnel	\$ 24,500	\$ 20,379	\$ 4,121
July 4 picnic	2,500	2,239	261
Legal and accounting	22,000	27,063	(5,063)
Office and communication	15,000	7,445	7,555
Membership and dues	2,500	2,071	429
Miscellaneous	2,650	3,527	(877)
Insurance and bond	2,800	1,261	1,539
Cable TV fees - Montgomery County	4,500	-	4,500
Transfer to reserves	48,000	-	48,000
	<u> </u>	<u> </u>	<u> </u>
Total General Government Expenditures	<u>124,450</u>	<u>63,985</u>	<u>60,465</u>
 Public Works Expenditures			
Waste removal	80,000	61,431	18,569
Leaf collection	15,000	14,600	400
Landscaping and lawn mowing	7,500	7,021	479
Trees, shrubs and grass	20,000	94,429	(74,429)
Sidewalk repair	1,000	2,082	(1,082)
Street lighting	7,500	6,586	914
Street cleaning	3,500	-	3,500
Snow removal	18,000	2,343	15,657
Street maintenance	5,000	4,628	372
Capital outlay - trees	-	1,950	(1,950)
Capital outlay - street repair	2,000	71,855	(69,855)
	<u> </u>	<u> </u>	<u> </u>
Total Public Works Expenditures	<u>159,500</u>	<u>266,925</u>	<u>(107,425)</u>
 Total Expenditures	 <u>\$ 283,950</u>	 <u>\$ 330,910</u>	 <u>\$ (46,960)</u>

December 19, 2018

To the Chairman, Village Council and Village Manager
Village of North Chevy Chase, Maryland

We audited the financial statements of the governmental activities and each major fund of the Village of North Chevy Chase, Maryland (the “Village”) for the year ended June 30, 2018, and have issued our report thereon dated December 19, 2018. 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 March 6, 2018 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, 2018 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

The audit was delayed due to errors in the trial balance and delays in receiving certain information.

Corrected and Uncorrected Misstatements

The Village maintains its books on a cash basis of accounting. At year end, we propose adjusting entries to convert the Village's books to generally accepting accounting principles. 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. Management has corrected all such misstatements. Most of the following adjustments pertain to converting the books to GAAP.

-) Fixed assets, depreciation expense and related accumulated depreciation
-) Investment accounts
-) Accounts receivable and related revenue accounts
-) Accounts payable and related expense accounts
-) Cash
-) Fund balance

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 representation from management that is included in the management representation letter dated December 19, 2018.

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

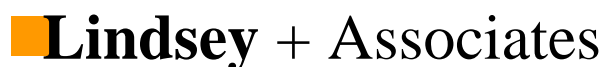
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationships and our responses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

We have also provided the Village's management with a letter dated December 19, 2018 pertaining to our audit findings and recommendations.

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

Very truly yours,

Kindley & Associates, LLC



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Towson, MD 21204

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December 19, 2018

To the Chairman, Village Council and Village Manager
Village of North Chevy Chase, Maryland

In planning and performing our audit of the financial statements of the Village of North Chevy Chase (the "Village") as of and for the year ended June 30, 2018 in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Village's internal control to be material weaknesses:

Preparation of Financial Statements

In the current year as well as the prior year we noted no Village employee or officer has the technical background to prepare the financial statements, including the related notes to the financial statements, in accordance with generally accepted accounting principles.

As part of the audit, the Village's management has requested us to prepare a draft of the Village's financial statements, including related notes to the financial statements. The Village Manager performed a review of the financial statements. However, in order to provide improved oversight of the financial statement preparation services at an appropriate level and implement controls over the financial reporting process, we recommend the Village obtain and use one or both of the following publications in subsequent years when reviewing the financial statements: *Governmental Accounting, Auditing, and Financial Reporting Using the GASB 34 Model* available from the Government Finance Officers Association at www.gfoa.org or *Preparing Governmental Financial Statements Under GASBS No. 34* available from Thomson Tax & Accounting at www.ppc.thomson.com.

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

Very truly yours,

Rindsey's Associates, P.C.