

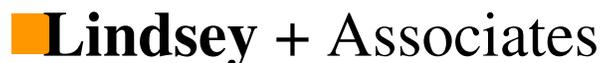
**THE VILLAGE OF
CHEVY CHASE SECTION 5, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2017**

THE VILLAGE OF CHEVY CHASE SECTION 5

TABLE OF CONTENTS

JUNE 30, 2017

	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 – 28
REQUIRED SUPPLEMENTARY INFORMATION	
• Schedule of Revenues and Expenditures – Budget and Actual – General Fund – Unaudited	29
• Schedule of Revenues and Expenditures – Budget and Actual – Special Revenue Fund – Unaudited	30
SUPPLEMENTAL SCHEDULES	
• Schedule of Revenues – Budget (GAAP basis) and Actual General Fund	31
• Schedule of Expenditures – Budget (GAAP basis) and Actual General Fund	32



606 Baltimore Avenue
Suite 101
Towson, MD 21204

410.825.1994 phone
410.825.1997 fax

www.acpafirm.com

Independent Auditor's Report

Honorable Chairman
Members of the Village Council
The Village of Chevy Chase Section 5, 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 Chevy Chase Section 5, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the basic financial statements of the Village as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 Chevy Chase Section 5 as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and the budgetary comparison information on pages 4 through 9 and 29 through 30 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 Chevy Chase Section 5, Maryland's financial statements as a whole. The schedule of revenues – budget and actual and the schedule of general expenditures – budget and actual on pages 30 through 31 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 schedule of general 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.

October 23, 2017

Rindley & Associates, LLC

**VILLAGE OF CHEVY CHASE SECTION 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Our discussion and analysis of the Village of Chevy Chase Section 5's (the "Village") financial performance provides an overview of the Village's financial activities for the year ended June 30, 2017. Please read it in conjunction with the Village's financial statements.

Financial Highlights

- Income tax receipts came in higher than budgeted this year by \$227,272. Total income tax receipts were higher compared to prior years. The Village expects income taxes to decrease.
- As a result of the year's activities, the Village's net position increased by \$285,499. In addition, the combined fund balances of the Village increased by \$295,493.

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 and deferred outflows and liabilities and 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.

**VILLAGE OF CHEVY CHASE SECTION 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

These two statements report changes in the Village's net position. You can think of the Village's net position (the difference between assets and deferred outflows and liabilities and 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.

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

- 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.
- 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.

- Governmental 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 CHEVY CHASE SECTION 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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	Building Permit Fees, Penalties
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 CHEVY CHASE SECTION 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Governmental-Wide Financial Information

The following is selected information as of June 30, 2017, and for the previous year, which is provided for comparison purposes.

	Governmental Activities	
	2016	2017
Current assets	\$ 2,766,156	\$ 3,034,662
Capital assets	121,049	150,001
Total assets	2,887,205	3,184,663
Deferred outflows	-	-
Total deferred outflows and assets	2,887,205	3,184,663
Current liabilities	198,529	186,157
Long-term liabilities	75,529	99,860
Total liabilities	274,058	286,017
Deferred inflows	-	-
Net position		
Net investment in capital assets	121,049	150,001
Restricted	-	-
Unrestricted	2,492,098	2,748,645
Total net position	2,613,147	2,898,646
Total liabilities, deferred inflows and net position	2,887,205	3,184,663
Program revenues		
Charges for services	-	-
Operating grants and contributions	18,306	15,166
General revenues		
Income taxes	757,362	762,657
Property taxes	-	-
Total general revenues	801,946	786,822
Transfers	-	-
Contingency loss	(75,529)	(24,331)
Total revenues and transfers	744,723	777,657
Expenses		
General government	482,806	305,343
Public works	188,645	186,815
Total expenses and transfers	671,451	492,158
Change in net position	73,272	285,499
Net position, beginning of year	2,539,875	2,613,147
Net position, end of year	\$ 2,613,147	\$ 2,898,646

**VILLAGE OF CHEVY CHASE SECTION 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017 and percentage of increases and decreases in relation to the prior year.

	FY2017 Amount	Percent of Total	Increase (Decrease) From FY16
Revenues			
Taxes	\$ 777,272	95%	\$ 36,383
Intergovernmental	15,166	2%	(3,140)
Investment and interest income	8,716	1%	3,061
Miscellaneous	15,449	2%	(23,480)
Total Revenue	<u>\$ 816,603</u>	<u>100%</u>	<u>\$ 12,824</u>
Expenditures			
General government	\$ 305,343	58%	\$ (177,463)
Public works	155,332	30%	(5,332)
Capital outlays	60,435	12%	50,835
Total Expenditures	<u>\$ 521,110</u>	<u>100%</u>	<u>\$ (131,960)</u>

Taxes increased from the prior year. Interest income remains low with current yields averaging 1%. General government expenditures decreased from the prior year.

**VILLAGE OF CHEVY CHASE SECTION 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

General Fund Budgetary Highlights

The budget was not amended in fiscal year 2017. Refer to pages 29 and 30 of this report for a detailed analysis of the original budget, final budget, and actual revenues and expenditures for the governmental funds.

For the year ended June 30, 2017 actual revenues in the general fund were \$801,437 compared to the budgeted amount of \$559,500.

Actual expenditures in the general fund were \$437,940 compared to the budgeted amount of \$335,920. Refer to page 32 of this report for a detailed analysis of the actual expenditures.

Capital Asset and Debt Administration

Capital Assets

Capital additions for fiscal year 2017 include street and sidewalk maintenance in the amount of \$60,435.

Debt

At year end, the Village had no long or short-term debt.

Economic Factors and Next Year's Budgets and Rates

The Village expects income taxes to decrease for fiscal year 2018. \$650,000 is budgeted in this category for fiscal year 2018. Expenditures are budgeted to remain fairly constant.

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 Town Manager at P. O. Box 15140, Chevy Chase, Maryland 20815.

VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 1,124,159	\$ 1,124,159
Investments	1,785,626	1,785,626
Accounts receivable	1,791	1,791
Accounts receivable - income taxes	123,086	123,086
Total Current Assets	<u>3,034,662</u>	<u>3,034,662</u>
Noncurrent Assets		
Net capital assets	150,001	150,001
Total Noncurrent Assets	<u>150,001</u>	<u>150,001</u>
TOTAL ASSETS	<u>3,184,663</u>	<u>3,184,663</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,184,663</u>	<u>\$ 3,184,663</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 177,157	\$ 177,157
Amounts held in escrow and deposit	9,000	9,000
Total Current Liabilities	<u>186,157</u>	<u>186,157</u>
Noncurrent Liabilities		
Due to State	99,860	99,860
Total Noncurrent Liabilities	<u>99,860</u>	<u>99,860</u>
TOTAL LIABILITIES	<u>286,017</u>	<u>286,017</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	150,001	150,001
Unrestricted	<u>2,748,645</u>	<u>2,748,645</u>
TOTAL NET POSITION	<u>2,898,646</u>	<u>2,898,646</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 3,184,663</u>	<u>\$ 3,184,663</u>

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

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government					
Governmental Activities:					
General government	\$ 305,343	\$ -	\$ -	\$ -	\$ (305,343)
Public works	186,815	-	15,166	-	(171,649)
Total Governmental Activities	<u>492,158</u>	<u>-</u>	<u>15,166</u>	<u>-</u>	<u>(476,992)</u>
Total Primary Government	<u>\$ 492,158</u>	<u>\$ -</u>	<u>\$ 15,166</u>	<u>\$ -</u>	<u>\$ (476,992)</u>
General revenues:					
Taxes					
				762,657	762,657
				8,398	8,398
				8,716	8,716
				7,051	7,051
				<u>786,822</u>	<u>786,822</u>
				(24,331)	(24,331)
				285,499	285,499
				<u>2,613,147</u>	<u>2,613,147</u>
				<u>\$ 2,898,646</u>	<u>\$ 2,898,646</u>

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

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents - unrestricted	\$ 1,124,159	\$ -	\$ 1,124,159
Investments	1,785,626	-	1,785,626
Accounts receivable	1,791	-	1,791
Accounts receivable - income taxes	123,086	-	123,086
TOTAL ASSETS	<u>3,034,662</u>	<u>-</u>	<u>3,034,662</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,034,662</u>	<u>\$ -</u>	<u>\$ 3,034,662</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 177,157	\$ -	\$ 177,157
Amounts held in escrow and deposit	9,000	-	9,000
TOTAL LIABILITIES	<u>186,157</u>	<u>-</u>	<u>186,157</u>
DEFERRED INFLOWS OF RESOURCES			
	123,086	-	123,086
FUND BALANCES			
Unassigned	2,725,419	-	2,725,419
TOTAL FUND BALANCES	<u>2,725,419</u>	<u>-</u>	<u>2,725,419</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
	<u>\$ 3,034,662</u>	<u>\$ -</u>	<u>\$ 3,034,662</u>

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

<i>Total Governmental Fund Balances</i>	\$ 2,725,419
Capital assets used in governmental activities are not reported in the funds.	150,001
Receivables pertaining to revenue that are not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	123,086
Long-term liabilities, including due to state, are not payable in the current period and therefore are not reported in the funds.	<u>(99,860)</u>
<i>Net Position of Governmental Activities</i>	<u>\$ 2,898,646</u>

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

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Taxes	\$ 777,272	\$ -	\$ 777,272
Intergovernmental	-	15,166	15,166
Interest	8,716	-	8,716
Miscellaneous	15,449	-	15,449
Total Revenues	<u>801,437</u>	<u>15,166</u>	<u>816,603</u>
Expenditures			
General government	305,343	-	305,343
Public works	132,597	22,735	155,332
Capital outlay	-	60,435	60,435
Total Expenditures	<u>437,940</u>	<u>83,170</u>	<u>521,110</u>
Excess (deficiency) of revenues over expenditures	363,497	(68,004)	295,493
Other financing sources (uses)			
Operating transfers in (out)	(68,004)	68,004	-
Total other financing sources (uses)	<u>(68,004)</u>	<u>68,004</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	295,493	-	295,493
Fund balance, beginning of year	<u>2,429,926</u>	<u>-</u>	<u>2,429,926</u>
Fund balance, end of year	<u>\$ 2,725,419</u>	<u>\$ -</u>	<u>\$ 2,725,419</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ 295,493
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs 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.	28,952
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.	(14,615)
Contingency loss pertains to a long-term payable which is not due in the current period and is not recognized in the funds.	<u>(24,331)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ 285,499</u>

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

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Village of Chevy Chase Section 5 was established in 1922 and later incorporated in 1982. The Village is governed by an elected Village council and chairman and provides the following services as authorized by its charter: highways, streets, and general administrative services. The Village is located within Montgomery County, Maryland.

The accounting policies of the Village of Chevy Chase Section 5 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 Chevy Chase Section 5, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Village are financially accountable and a financial benefit or burden relationship exists. In addition, component units can be other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the Village's financial statements to be misleading. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Village.

Basis of Presentation – Fund Accounting

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

The Village's governmental funds include the General Fund and the Special Revenue Fund. The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. The Special Revenue Fund is used to account for the Village's share of Highway User Revenues that are restricted to use in maintaining roads of the Village.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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.
- Special Revenue Fund – The Special Revenue fund is used to account for the Village’s share of motor fuel tax revenue and highway user fees legally restricted to be used to maintain the roads within the Village’s borders.

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 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.

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 CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 three months or less from the date of acquisition.

Investments

Investments held at June 30, 2017 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2017 consist of income taxes and cable franchise fees. All 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 CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and Inflows of Resources

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

As of June 30, 2017, deferred inflows of resources consisted of income taxes of \$123,086.

Local Tax Reserve Fund

At June 30, 2017, the Village was advised by the State of Maryland that \$123,086 of the Local Tax Reserve Fund was allocable to the Village. The Village recorded receivable and deferred inflows of resources in the amount of \$123,086 in the fund financial statements. The change in this amount from the prior year is reflected in current year 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, and drainage 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 is available.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Interest Expense

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

Compensated Absences

Village employees do not earn vacation or sick leave. Therefore no amount is shown for accrued compensated absences.

Estimates

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

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

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

**VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 2017. 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 consistent with generally accepted accounting principles.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

The deposits of the Village are governed by the Annotated Code of Maryland. State statutes authorize the Village to establish official depositories with any financial institution whose principal office is located in Maryland. The Village may also establish time deposits in the form of NOW accounts, money market accounts, and certificates of deposit.

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 \$1,124,159 and the bank balances totaled \$1,124,264. Of the bank balances, \$674,265 was not 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 no policy regarding concentration of credit risk.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities in the possession of an outside party. 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 Village Manager. 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, 2017, \$1,220,885 in Certificates of Deposits, and \$564,741 in the Maryland Local Government Investment Pool (MLGIP).

As of June 30, 2017, 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>
Certificates of Deposit	\$ 1,220,885	\$ 1,220,885	N/A
MLGIP	564,741	564,741	AAAm
	<u>\$ 1,785,626</u>	<u>\$ 1,785,626</u>	

Note: The Village has 12 certificates of deposit in various financial institutions, all 12 for \$100,000 plus accrued interest.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of June 30, 2017:

State of Maryland - Income tax receivable	\$ 123,086
Accounts receivable - Cable franchise fees	<u>1,791</u>
	<u><u>\$ 124,877</u></u>

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, 2017 were \$0.00 and \$0.00 per \$100 of assessed value, respectively.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Subtotal	-	-	-	-
Depreciable capital assets:				
Streets and improvements	528,219	60,435	-	588,654
Equipment	2,964	-	-	2,964
Subtotal	531,183	60,435	-	591,618
Total capital assets	531,183	60,435	-	591,618
Accumulated depreciation:				
Streets and improvements	407,170	31,483	-	438,653
Equipment	2,964	-	-	2,964
Subtotal,				
accumulated depreciation	410,134	31,483	-	441,617
Net capital assets	\$ 121,049	\$ 28,952	\$ -	\$ 150,001

Depreciation expense was charged to functions as follows:

Government activities:	
General government	\$ -
Public works	31,483
Total government activities depreciation expense	<u>\$ 31,483</u>

The Village has no material construction commitments as of June 30, 2017.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – RETIREMENT PLAN

The Village charter authorizes the Village to provide retirement benefits and may be amended by the Village Council. The Village has a simplified employee pension – individual retirement agreement (SEP-IRA) for its one employee. An employee becomes eligible by being at least 21 years of age and receiving compensation of at least \$450. The Village contributes 6.75% of the employee’s gross compensation provided the employee matches at least 3% of their gross compensation. All contributions vest immediately. At June 30, 2017 the Village made contributions of \$0 and the employee contributed \$0. The trustee for the SEP-IRA is Aetna Life Insurance.

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, 2017 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 CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 – CONCENTRATION OF CREDIT RISK

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

NOTE 11 – CONCENTRATION OF CREDIT RISK

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 depreciation expense as a budgeted expenditure. The reconciliation between the non-GAAP budget and GAAP follows:

Budgeted excess (deficiency) of revenue over (under) expenditures - non-GAAP basis	\$ 129,248
Depreciation expense	<u>27,000</u>
Budgeted excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u><u>\$ 156,248</u></u>

NOTE 12 – FUND BALANCE REPORTING

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

Unassigned Fund Balances

All fund balances in the general fund are unassigned. At June 30, 2017, this amount was \$2,725,419.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 – COMPTROLLER OF THE TREASURY OF MARYLAND V. WYNNE

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

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

As of June 2017, the Comptroller’s Office estimates that the fiscal impact of the ruling on the Village will be approximately \$99,860 of refunds for prior years’ taxes, and an estimated reduction of approximately \$10,000 each year going forward. As taxpayers have three years to amend their returns, this number could increase.

The change in the estimated amount of refunds to be paid has been recorded as a contingency loss on the Statement of Activities, and the total amount as a noncurrent liability on the Statement of Net Position, as the Village will not be required to start reimbursing the State until the fourth quarter of fiscal year 2019, and will be repaid over a period of five years as a reduction in income tax distribution.

VILLAGE OF CHEVY CHASE SECTION 5
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

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

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

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

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

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

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

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

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

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes	\$ 550,000	\$ 550,000	\$ 777,272	\$ 227,272
Interest and investment earnings	4,000	4,000	8,716	4,716
Miscellaneous	5,500	5,500	15,449	9,949
Total Revenues	<u>\$ 559,500</u>	<u>\$ 559,500</u>	<u>\$ 801,437</u>	<u>\$ 241,937</u>
Expenditures				
General government	\$ 184,420	\$ 184,420	\$ 305,343	\$ (120,923)
Public works	151,500	151,500	132,597	18,903
Total Expenditures	<u>\$ 335,920</u>	<u>\$ 335,920</u>	<u>\$ 437,940</u>	<u>\$ (102,020)</u>

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Special Revenue Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Highway user revenue	\$ 4,578	\$ 4,578	\$ 3,399	\$ (1,179)
State highway grant	12,590	12,590	11,767	(823)
Total Revenues	\$ 17,168	\$ 17,168	\$ 15,166	\$ (2,002)
Expenditures				
Public works	\$ 41,500	\$ 41,500	\$ 22,735	\$ 18,765
Capital expenditures	70,000	70,000	60,435	9,565
Total Expenditures	\$ 111,500	\$ 111,500	\$ 83,170	\$ 28,330

SUPPLEMENTAL SCHEDULES

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual - General Fund	Budget Favorable (Unfavorable)
REVENUES			
Taxes			
State income taxes	\$ 550,000	\$ 777,272	\$ 227,272
Total Taxes	<u>550,000</u>	<u>777,272</u>	<u>227,272</u>
Miscellaneous			
Interest and investment earnings	4,000	8,716	4,716
Building application fees	2,000	1,250	(750)
Miscellaneous receipts	-	5,801	5,801
Cable TV fees	3,500	8,398	4,898
Total Miscellaneous	<u>9,500</u>	<u>24,165</u>	<u>14,665</u>
Total Revenues	<u>\$ 559,500</u>	<u>\$ 801,437</u>	<u>\$ 241,937</u>

**VILLAGE OF CHEVY CHASE SECTION 5, MARYLAND
SCHEDULE OF GENERAL EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Budget	Actual - General Fund	Budget Favorable (Unfavorable)
	<u> </u>	<u> </u>	<u> </u>
General Government Expenditures			
Personnel	\$ 61,875	\$ 64,792	\$ (2,917)
Professional fees	50,000	28,658	21,342
Insurance	1,500	1,454	46
Office and printing	16,820	8,134	8,686
Community activities	16,900	16,372	528
Membership and dues	6,325	2,833	3,492
Miscellaneous	1,000	5,566	(4,566)
Police and safety	30,000	18,634	11,366
Tax payment	-	158,900	(158,900)
	<u> </u>	<u> </u>	<u> </u>
Total General Government Expenditures	<u>184,420</u>	<u>305,343</u>	<u>(120,923)</u>
Public Works Expenditures			
Waste removal	65,000	61,179	3,821
Trees, shrubs and grass	35,000	40,185	(5,185)
Leaf collection	15,000	18,786	(3,786)
Depreciation expense	27,000	-	27,000
Landscaping	9,500	12,447	(2,947)
	<u> </u>	<u> </u>	<u> </u>
Total Public Works Expenditures	<u>151,500</u>	<u>132,597</u>	<u>18,903</u>
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 335,920</u>	<u>\$ 437,940</u>	<u>\$ (102,020)</u>

October 23, 2017

To the Chair of the Council, Village Council and Village Manager
Section 5 of the Village of Chevy Chase, Maryland

We audited the financial statements of the governmental activities and each major fund of Section 5 of the Village of Chevy Chase, Maryland (the “Village”) for the year ended June 30, 2017, and have issued our report thereon dated October 23, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 22, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017 except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Difficulties Encountered in Performing the Audit

There were no difficulties encountered during the audit.

Corrected and Uncorrected Misstatements

The Village maintains its books on a cash basis. We assisted the Village in converting from the cash basis to generally accepted accounting principles (GAAP). 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. Many of the following adjustments pertain to converting from the cash basis to GAAP. Management has corrected all such misstatements.

- Cash, savings accounts
- Accounts receivable
- Accounts payable
- Various income accounts
- Various expense accounts

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 October 23, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

We also provided management with a letter dated October 23, 2017 pertaining to our audit findings and recommendations.

This information is intended solely for the use of the Chair of the Council, 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,

Timothy J. Associates, LLC

October 23, 2017

To the Chair of the Council, Village Council and Village Manager
The Village of Chevy Chase Section 5, Maryland

In planning and performing our audit of the financial statements of the Village of Chevy Chase Section 5 (the "Village") as of and for the year ended June 30, 2017 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 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 significant deficiencies or 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.

A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Village's internal control to be significant deficiencies:

Segregation of Duties

In the current year as well as the prior we noted that segregation of duties is normally difficult to accomplish within a small organization, but management should be ever mindful of areas that can be easily improved upon. An example is in the area of cash. One individual enters data into the accounting system and performs bank reconciliations.

One suggestion for improving internal control over this area is to have the Treasurer receive the unopened bank statement and review the cancelled checks and subsequent bank reconciliation.

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

Very truly yours,

Kindley & Associates, LLC