
**VILLAGE OF MARTIN'S
ADDITIONS, MARYLAND**

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

**For the Years Ended
June 30, 2007 and 2006**

LSWG

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



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CERTIFIED PUBLIC ACCOUNTANTS

EDWARD T. GARRETT, CPA
MEREDITH C. HARSHMAN, CPA
PAUL D. HEMME, CPA
KEVIN R. HESSLER, CPA
DONALD C. LINTON, CPA, CFP, PFS
JOSEPH M. MCCATHRAN, CPA
BARBARA CLINE-ROMAN, CPA
RONALD W. SHAFER, CPA
DOUGLAS C. WARFIELD, CPA, CVA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Chairperson and Council
Village of Martin's Additions, Maryland

We have audited the accompanying financial statements of the governmental activities and the general fund of the Village of Martin's Additions, Maryland (the Village), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Martin's Additions management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund of the Village of Martin's Additions, Maryland as of June 30, 2007 and 2006, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 12, 2007

Linton Shafer Warfield & Garrett

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June 30, 2007 and 2006

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MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Village of Martin's Additions, we offer the Village of Martin's Additions financial statements this narrative overview and analysis of the financial activities of the Village of Martin's Additions for the fiscal year ended June 30, 2007. We encourage readers to consider the following information.

FINANCIAL HIGHLIGHTS

- The assets of the Village of Martin's Additions exceeded its liabilities at the close of the fiscal year by \$1,137,280 (net assets). Of this amount, \$1,093,632 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$77,488.
- As of the close of the fiscal year, the Village of Martin's Additions governmental funds reported combined ending fund balances of \$1,093,538, an increase of \$74,251 in comparison with the prior year. Approximately 85% of this total amount, \$923,068, is available for spending at the government's discretion (unreserved fund balance). The balance of \$170,470 is reserved for street improvements and prepaid expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. (Exhibits A-1 and A-2) The government-wide financial statements are designed to provide readers with a broad overview of the Village of Martin's Additions finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Village of Martin's Additions assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Martin's Additions is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements of the Village of Martin's Additions are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Village of Martin's Additions include general government, public works, public safety, and recreation. The government-wide financial statements report only on the Village of Martin's Additions.

Fund financial statements. (Exhibits A-3 to A-5) A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Martin's Additions, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of Martin's Additions are governmental funds.

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

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

The Village of Martin's Additions maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of which is considered to be a major fund.

The Village of Martin's Additions adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as one useful indicator of a government's financial position. In the case of the Village of Martin's Additions, assets exceeded liabilities by \$1,137,280 at the close of the most recent fiscal year.

Approximately 4% of the Village of Martin's Additions net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment). The Village of Martin's Additions uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Village of Martin's Additions Net Assets

	<u>Governmental</u>
Current and other assets	\$ 1,218,858
Capital assets	<u>43,648</u>
Total assets	<u>1,262,506</u>
Other liabilities	<u>125,226</u>
Total liabilities	<u>125,226</u>
Net assets	<u>\$ 1,137,280</u>
Invested in capital assets	\$ 43,648
Unrestricted	<u>1,093,632</u>
Total net assets	<u>\$ 1,137,280</u>

The unrestricted net assets \$1,093,632 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities increased the Village of Martin's Additions net assets by \$77,488.

Village of Martin's Additions Changes in Net Assets

	Governmental Activities
Revenues:	
Program revenues:	
Charges for services	\$ 15,259
Operating grants and contributions	5,707
General revenues:	
Taxes	508,760
Other	124,098
Total Revenues	<u>\$ 653,824</u>
Expenses:	
General government	\$ 219,479
Public works	289,397
Public safety	46,576
Recreation	<u>20,884</u>
Total Expenses	<u>\$ 576,336</u>
Increase in net assets	\$ 77,488
Net assets, July 1, 2006	<u>1,059,792</u>
Net assets, June 30, 2007	<u>\$ 1,137,280</u>

Taxes of \$508,760 comprised 78% of the total revenues of \$653,824. This balance is comprised of property and income taxes.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The Village of Martin's Additions uses fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental funds. The focus of the Village of Martin's Additions governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village of Martin's Additions financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Village of Martin's Additions governmental funds reported combined ending fund balances of \$1,093,538, an increase of \$74,251 in comparison with the prior year. Approximately 85% of this amount, \$923,068, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund is reserved for street improvements and prepaid expenses.

General fund budgetary highlights. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as County and State grants; and (3) increases in appropriations that become necessary to maintain services.

During the fiscal year the Village made amendments that fall into category one and three. The effect of these amendments are shown in the schedule below. The final budget for Taxes is approximately \$100,000 greater than the original estimate. This is mainly attributed to a \$105,000 revised estimate for income taxes. Intergovernmental revenues final budget figures were approximately \$13,000 greater than the original estimate. This is related to Highway Users Revenue and County Revenue sharing being \$4,000 and \$9,000 respectively higher than anticipated. Other Revenue final budget figures were higher than estimated primarily due to interest income being \$16,000 higher than originally estimated.

The final budgeted expenditures increased \$179,152 over the original budget for expenditures. This increase is associated with various items as shown in the following summary:

- Accounting and Auditing, Telephone, and Storage Rental were originally included in the Office Expense budget. It was determined that it would be a better management tool to have these accounts budgeted separately. In breaking these budget items out revised projections were developed and included in the final budget figures. This resulted in a \$26,400 increase in the budget for these line items.
- The Legal budget increased \$30,000. This was the result of having the Village attorney attend Council meetings and make numerous revisions to the Village Charter and Code of Ordinances.
- Office Lease of \$25,000 was included in the final budget while it was not accounted for in the original budget.
- Within the Public Works – Highway and Street line items it was determined that a right-of-way survey needed to be performed in order to determine the Village's legal boundaries and to have a permanent record of all Village infrastructure. The cost of the survey was \$43,300. This amount was not projected in the original budget.
- Tree Replacement, Urban Planner, and Right-of-way line items were added and budgeted for in order to have better management of these items. The total increase for these items was \$21,700.
- For Snow and Ice Removal the budget was revised from \$10,000 to \$19,000 due to an unusual amount of snow and ice storms during the year.

Actual revenues exceeded expenditures by \$74,251 in the General Fund for fiscal year 2007. This is an increase from fiscal year 2006 of \$53,920.

Actual revenues and expenditures were very close to the final budget figures due to continual management of the budget and frequent adjustments to the budget during the year.

General Fund	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Taxes	\$ 412,090	\$ 512,035	\$ 508,738
Licenses and Permits	4,700	6,950	13,990
Intergovernmental	57,000	70,343	72,050
Other	<u>33,665</u>	<u>54,882</u>	<u>59,023</u>
Total	<u>507,455</u>	<u>644,210</u>	<u>653,801</u>
Expenditures			
General Government	\$ 158,100	\$ 234,002	\$ 223,723
Public Safety	55,000	47,000	46,576
Public Works	194,500	304,750	288,367
Recreation	<u>20,000</u>	<u>21,000</u>	<u>20,884</u>
Total	<u>\$ 427,600</u>	<u>\$ 606,752</u>	<u>\$ 579,550</u>
Change in fund balance	<u>\$ 79,855</u>	<u>\$ 37,458</u>	<u>\$ 74,251</u>

CAPITAL ASSETS

At the end of fiscal year 2007, the Village's governmental activities have invested \$6,179 in office equipment \$1,381 in leasehold improvements and \$41,160 in infrastructure, as reflected in the following schedule. Total depreciation for the 2007 fiscal year was \$2,402 and accumulated depreciation for all assets was \$5,072.

Governmental Activities - Capital Assets

	<u>Governmental Activities</u>
Non-Depreciable Assets	None
Other Capital Assets	
Infrastructure	41,160
Equipment	6,179
Leasehold Improvements	<u>1,381</u>
Total Capital Assets	48,720
Accumulated Depreciation on Other Capital Assets	<u>(5,072)</u>
Net Capital Assets	<u>\$ 43,648</u>

ECONOMIC FACTORS

The major economic factors that continue to effect the Village of Martin's Additions are the increasing costs of services for on-going street repairs and maintenance and the overall level of tax receipts.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Village of Martin's Additions finances. Questions concerning any of the information provided in this report of requests for additional financial information should be addressed to the Village Manager of the Village of Martin's Additions, 7013B Brookville Road, Chevy Chase, Maryland, 20815.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Statements of Net Assets

June 30,

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Assets		
Cash and cash equivalents	\$ 24,481	\$ 110,329
Investments	1,142,322	888,622
Receivables, net	4,855	4,260
Due from other governments	45,163	63,955
Prepaid expenses	2,037	6,441
Capital assets, net	<u>43,648</u>	<u>40,433</u>
 Total Assets	 <u>\$ 1,262,506</u>	 <u>\$ 1,114,040</u>
Liabilities		
Accounts payable	\$ 69,499	\$ 12,171
Refundable deposits	<u>55,727</u>	<u>42,078</u>
 Total Liabilities	 <u>125,226</u>	 <u>54,249</u>
Net Assets		
Invested in capital assets	43,648	40,433
Unrestricted	<u>1,093,632</u>	<u>1,019,358</u>
 Total Net Assets	 <u>1,137,280</u>	 <u>1,059,791</u>
 Total Liabilities and Net Assets	 <u>\$ 1,262,506</u>	 <u>\$ 1,114,040</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Statement of Program Activities

For the Year Ended June 30, 2007 (with comparative totals for 2006)

Functions/Programs	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		2007 Total	2006 Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities			
Governmental Activities							
General government	\$ 219,479	\$ -	\$ 5,707	\$ (213,772)	\$ (213,772)	\$ (213,772)	\$ (140,840)
Building and zoning	-	13,990	-	13,990	13,990	13,990	9,530
Public works	289,397	-	-	(289,397)	(289,397)	(289,397)	(298,877)
Public safety	46,576	1,269	-	(45,307)	(45,307)	(45,307)	(45,545)
Recreation	20,884	-	-	(20,884)	(20,884)	(20,884)	(22,233)
Total Governmental Activities	\$ 576,336	\$ 15,259	\$ 5,707	(555,370)	(555,371)	(555,371)	(497,964)
General Revenues							
Property taxes				17,266	17,266	17,266	15,226
Income taxes				491,494	491,494	491,494	431,809
Intergovernmental				72,050	72,050	72,050	67,616
Interest				52,048	52,048	52,048	35,836
Total General Revenues				632,858	632,858	632,858	550,487
Change in Net Assets				77,488	77,488	77,488	52,523
Net Assets, Beginning of Year				1,059,792	1,059,792	1,059,792	1,007,269
Net Assets, End of Year				\$ 1,137,280	\$ 1,137,280	\$ 1,137,280	\$ 1,059,792

The accompanying notes are an integral part of this statement.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Balance Sheets
Governmental Funds
June 30,

	2007 General <u>Fund</u>	2006 General <u>Fund</u>
Assets		
Cash and cash equivalents	\$ 24,481	\$ 110,329
Investments	1,142,322	888,622
Receivables, net	4,855	4,260
Due from other governments	45,163	63,955
Prepaid expenses	<u>2,037</u>	<u>6,441</u>
Total Assets	<u><u>\$ 1,218,858</u></u>	<u><u>\$ 1,073,607</u></u>
Liabilities		
Accounts payable	\$ 69,499	\$ 12,171
Refundable deposits	55,727	42,078
Deferred property taxes	<u>94</u>	<u>71</u>
Total Liabilities	<u><u>125,320</u></u>	<u><u>54,320</u></u>
Fund Balances		
Unreserved, undesignated	923,068	739,919
Unreserved, designated for street improvements	168,433	272,927
Reserved for prepaid expenses	<u>2,037</u>	<u>6,441</u>
Total Fund Balances	<u><u>1,093,538</u></u>	<u><u>1,019,287</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 1,218,858</u></u>	<u><u>\$ 1,073,607</u></u>
Reconciliation of Total Governmental Fund Balances To Net Assets of the Governmental Activities		
Total Governmental Fund Balances	\$ 1,093,538	\$ 1,019,287
Amounts reported for governmental activities in the statement of net assets are different because:		
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	94	71
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>43,648</u>	<u>40,433</u>
Net Assets of Governmental Activities	<u><u>\$ 1,137,280</u></u>	<u><u>\$ 1,059,791</u></u>

✓ The accompanying notes are an integral part of these statements.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Statements of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Years Ended June 30,

	2007	2006
	General	General
	Fund	Fund
Revenues		
Property taxes	\$ 17,244	\$ 15,206
Taxes - state shared	491,494	431,809
Licenses and permits	13,990	9,530
Intergovernmental	72,050	67,616
Miscellaneous	<u>59,023</u>	<u>44,237</u>
Total Revenues	<u>653,801</u>	<u>568,398</u>
Expenditures		
General government	223,723	146,738
Public safety	46,576	47,659
Public works	288,367	297,848
Recreation	<u>20,884</u>	<u>22,233</u>
Total Expenditures	<u>579,550</u>	<u>514,478</u>
Excess of Revenues Over Expenditures	74,251	53,920
Fund Balance - Beginning of Year	<u>1,019,287</u>	<u>965,367</u>
Fund Balance - End of Year	<u><u>\$ 1,093,538</u></u>	<u><u>\$ 1,019,287</u></u>

The accompanying notes are an integral part of these statements.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Reconciliation of the Statements of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statements of Activities
For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 74,251	\$ 53,920
Amounts reported for governmental activities in the Statement of Activities are different because:		
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	22	19
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	<u>3,215</u>	<u>(1,417)</u>
Net Changes in Net Assets	<u>\$ 77,488</u>	<u>\$ 52,522</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Village of Martin's Additions (Village) was incorporated in 1985 under the laws of the State of Maryland. The Village operates under a Council form of government consisting of a Council Chairperson and Village Council. The Village Council has the authority to appoint a Village Manager who shall be responsible for the day-to-day operations of the Village government and for carrying out the policies determined and approved by the Village government. The Village provides the following services as authorized by its charter: public safety (traffic), streets, sanitation, building permits and general administration services. The basic financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for established governmental and financial reporting principles. The Village implemented the new accounting and financial reporting requirements of GASB Statements No. 34, Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. As a result, an entirely new financial reporting format is presented. GASB Statement No. 34 adds the following components to the financial statements:

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

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

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

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

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

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

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

B. Government-Wide and Fund Financial Statements

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

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements (continued)

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

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

The government-wide statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Reimbursements are reported as reduction to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Village considers revenue to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation debt principal and interest payments which are reported as expenditures in the year due.

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

The Village reports the following major governmental fund:

The General Fund – This is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets

1. Deposits and Investments

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

2. Prepaid Expenses

Prepaid expenses record payments to vendors that benefit future reporting periods. Prepaid expenses are similarly reported in government-wide and fund financial statements.

3. Capital Assets

Capital assets, which include equipment are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. General infrastructure assets acquired prior to July 1, 2004 are not reported in the basic financial statements. As of June 30, 2007 and 2006, there was \$41,160 of infrastructure recorded on the books. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Equipment:

Office equipment - 5 to 7 years

Infrastructure

Sidewalks and curbs - 40 years

Leasehold improvements - 10 years

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

4. Property Taxes

Property taxes for the current year were assessed and collected by Montgomery County and subsequently remitted to the Village. Property taxes are assessed on July 1st and are due and payable one half by September 30th and one half by December 31st. All unpaid taxes levied July 1st become delinquent on October 1st and January 1st. The real property tax rates for the Village for fiscal years ended June 30, 2007 and 2006 was .008, respectively, per \$100 of assessed taxable value. The public utilities, corporate and personal property tax rates for the Village for the fiscal years ended June 30, 2007 and 2006 was .008, respectively, per \$100 of assessed taxable value. Procedures for the collection of delinquent taxes by Montgomery County are provided for in the laws of Maryland.

5. Fund Equity

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

6. Use of Estimates

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

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

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

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

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

Note 3 – Detailed Notes on All Funds

- A. Deposits and Investments

Deposits

State statutes require all deposits be insured by the Federally Depository Insurance Corporation (FDIC) or fully collateralized.

Village administration is authorized to invest in those instruments authorized by Maryland Statutes. Cash and cash equivalents as presented on the balance sheet and statement of net assets includes deposits (cash).

At June 30, 2007 and 2006, the carrying amounts of the Village's deposits were \$24,481 and \$110,329, respectively, and the bank balances totaled \$44,757 and \$115,267 respectively, all of which are insured by Federal Deposit Insurance.

Investments

The Village's investments are categorized to give an indication of the level of custodial credit risk assumed by the Village at year-end. Category 1 includes investments that are insured or registered or where securities are held by the Village or its agent, in the Village's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the Village's name holds the securities. Category 3 includes uninsured and unregistered where the securities are held by the financial institution's trust department or agent, but not in the Village's name. The Village holds no such investments at this time. The investments the Village holds are investments in State Treasurer's Investment Pool. The balance in the pool at June 30, 2007 and 2006 were \$1,142,322 and \$888,622, respectively.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 3 – Detailed Notes on All Funds (continued)

B. Receivables

Receivables as of June 30, 2007 and 2006 for the Village's individual major and non-major governmental funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	<u>2007</u>	<u>2006</u>
Property taxes	\$ 94	\$ 71
Other	<u>4,761</u>	<u>4,189</u>
Gross Receivables	4,855	4,260
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>
Total Receivables - Net	<u>\$ 4,855</u>	<u>\$ 4,260</u>

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

C. Due From Other Governments

Due from other governments represents accrued revenue at June 30, 2007 and 2006 consisting of the following:

	<u>2007</u>	<u>2006</u>
Primary Government		
State		
General Fund	\$ 43,569	\$ 62,280
Total State	<u>43,569</u>	<u>62,280</u>
County		
General Fund	<u>1,594</u>	<u>1,675</u>
Total County	<u>1,594</u>	<u>1,675</u>
Total Primary Government	<u>\$ 45,163</u>	<u>\$ 63,955</u>

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 3 – Detailed Notes on All Funds (continued)

D. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, being depreciated				
Equipment	\$ 1,943	\$ 4,236	\$ -	\$ 6,179
Leasehold improvements	-	1,381	-	1,381
Infrastructure	<u>41,160</u>	<u>-</u>	<u>-</u>	<u>41,160</u>
Total capital assets being depreciated	<u>43,103</u>	<u>5,617</u>	<u>-</u>	<u>48,720</u>
Less accumulated depreciation for:				
Equipment	(1,555)	(1,235)	-	(2,790)
Leasehold improvements	-	(138)	-	(138)
Infrastructure	<u>(1,115)</u>	<u>(1,029)</u>	<u>-</u>	<u>(2,144)</u>
Total accumulated depreciation	<u>(2,670)</u>	<u>(2,402)</u>	<u>-</u>	<u>(5,072)</u>
Total capital assets, being depreciated, net	<u>40,433</u>	<u>3,215</u>	<u>-</u>	<u>43,648</u>
Governmental activities capital assets, net	<u>\$ 40,433</u>	<u>\$ 3,215</u>	<u>\$ -</u>	<u>\$ 43,648</u>

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

	<u>2007</u>	<u>2006</u>
Governmental activities		
General government	\$ 1,373	\$388
Public works	<u>1,029</u>	<u>1,029</u>
Total Depreciation Expense	<u>\$2,402</u>	<u>\$1,417</u>

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2007 and 2006

Note 4 – Commitment and Contingencies

A. Risk Management

The Village is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Village's general liability risks are financed through participation in the Montgomery County Self Insurance Pool together with the County Government's component units, and at least one other local municipality. The Village paid annual premiums of approximately \$4,970 and \$5,460 for the fiscal years ended June 30, 2007 and 2006, respectively to the pool for its general, auto, worker's compensation, public official bond and property insurance coverage. Claims over the past three years have been significantly less than that amount. The agreement with the pool provides that it will be self-sustaining through member premiums, and will reinsure through commercial companies for claims in excess of \$10,000,000 in aggregate. Settled claims resulting from these risks have not exceeded insurance coverage, and no significant reductions in insurance coverage have occurred, in any of the past three years.

B. Office Lease Commitment

In 2006, the Village entered into a lease for office space under an agreement that expires May 1, 2026. Base rent per the agreement is \$1,767 per month with various increases throughout the lease. The lease has the option to renew for an additional 10 year period. Prior to this lease, the Village rented office space under a month to month lease agreement. The base rent was \$1,000 per month. The Village terminated the lease effective May 31, 2006. Total rent expense for the fiscal year ended June 30, 2007 and 2006 was \$24,662 and \$5,767, respectively.

The minimum lease payments are as follows:

For the Fiscal Year Ending

2008	\$	21,627
2009		22,896
2010		22,896
2011		22,896
2012		22,896

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	Actual <u>Amounts</u>	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Local				
Real property tax	\$ 22,000	\$ 17,000	\$ 17,109	\$ 109
Personal property, ordinary business and public utilities tax	90	35	130	95
Total Taxes - Local	22,090	17,035	17,239	204
Prior year additions/abatements	-	-	5	5
Total Taxes - Local - Net	22,090	17,035	17,244	209
State Shared				
Income tax	390,000	495,000	491,494	(3,506)
Total Taxes - State Shared	390,000	495,000	491,494	(3,506)
Total Taxes	412,090	512,035	508,738	(3,297)
Licenses and Permits				
Building and equipment permits	700	500	6,300	5,800
Cable T.V. franchise tax	4,000	6,450	6,874	424
Traders licenses	-	-	816	816
Total Licenses and Permits	4,700	6,950	13,990	7,040
Intergovernmental Revenues				
State highway user	38,000	42,094	43,801	1,707
County revenue sharing	19,000	28,249	28,249	-
Total Intergovernmental Revenues	\$ 57,000	\$ 70,343	\$ 72,050	\$ 1,707

(continued)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	Actual Amounts	Variance with Final Budget Positive (Negative)
Miscellaneous				
Code infractions	\$ 1,470	\$ 1,200	\$ 1,269	\$ 69
Interest	32,000	48,000	52,047	4,047
Holiday fund	<u>195</u>	<u>5,682</u>	<u>5,707</u>	<u>25</u>
Total Miscellaneous	<u>33,665</u>	<u>54,882</u>	<u>59,023</u>	<u>4,141</u>
Total Revenues	<u>\$ 507,455</u>	<u>\$ 644,210</u>	<u>\$ 653,801</u>	<u>\$ 9,591</u>

(continued)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

Expenditures	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	Actual <u>Amounts</u>	Variance with Final Budget Positive (Negative)
General Government				
Financial Administration				
Administrative salaries	\$ 67,500	\$ 64,000	\$ 62,612	\$ 1,388
Payroll taxes and benefits	7,500	3,300	3,226	74
Accounting and auditing	-	20,900	20,900	-
Legal	-	30,000	29,931	69
Dues and subscriptions	2,500	3,500	2,962	538
Office lease	-	25,000	24,662	338
Office expenses	30,000	18,250	18,089	161
Office furniture and equipment	10,000	9,000	6,927	2,073
Telephone	-	3,000	2,870	130
Storage rental	-	2,500	2,484	16
Printing and mailing	13,000	16,000	15,730	270
Insurance	7,500	4,970	4,970	-
Website	3,600	5,000	-	5,000
Total Financial Administration	<u>141,600</u>	<u>205,420</u>	<u>195,363</u>	<u>10,057</u>
Other General Government				
Cable T.V. fee	4,000	6,450	6,874	(424)
Building and permitting	12,500	16,500	15,854	646
Holiday fund	-	5,632	5,632	-
Total Other General Government	<u>16,500</u>	<u>28,582</u>	<u>28,360</u>	<u>222</u>
Total General Government				
Expenditures	<u>\$ 158,100</u>	<u>\$ 234,002</u>	<u>\$ 223,723</u>	<u>\$ 10,279</u>

(continued)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Public Safety				
Police services	\$ 55,000	\$ 47,000	\$ 46,576	\$ 424
Total Public Safety Expenditures	<u>55,000</u>	<u>47,000</u>	<u>46,576</u>	<u>424</u>
Public Works				
Highways and Streets				
Street lighting	15,000	17,000	14,092	2,908
Tree service	60,000	60,500	60,483	17
Tree replacement	-	15,000	2,010	12,990
Street repair and maintenance	19,500	61,000	60,043	957
Street improvements	10,000	-	-	-
Survey- right-of-way	-	43,300	43,300	-
Right-of-way maintenance	-	3,200	4,940	(1,740)
Urban planner	-	3,500	3,500	-
Snow and ice removal	<u>10,000</u>	<u>19,000</u>	<u>18,245</u>	<u>755</u>
Total Highway and Streets	<u>114,500</u>	<u>222,500</u>	<u>206,613</u>	<u>15,887</u>
Sanitation and Waste Removal				
Waste collection	65,000	71,000	70,504	496
Recycling	<u>15,000</u>	<u>11,250</u>	<u>11,250</u>	<u>-</u>
Total Sanitation and Waste Removal	<u>80,000</u>	<u>82,250</u>	<u>81,754</u>	<u>496</u>
Total Public Works Expenditures	<u>194,500</u>	<u>304,750</u>	<u>288,367</u>	<u>16,383</u>
Recreation				
Community events	<u>20,000</u>	<u>21,000</u>	<u>20,884</u>	<u>116</u>
Total Recreation	<u>20,000</u>	<u>21,000</u>	<u>20,884</u>	<u>116</u>
Total Expenditures	<u>\$ 427,600</u>	<u>\$ 606,752</u>	<u>\$ 579,550</u>	<u>\$ 27,202</u>

The accompanying notes are an integral part of this schedule.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Required Supplemental Information
June 30, 2007

Note 1 – Summary of Significant Budget Policies

The Village Council annually adopts a budget for the General Fund of the primary government. All appropriations are legally controlled at the departmental level for the General Fund. On June 28, 2006, the Village Council approved the original adopted budget for the fiscal year ended June 30, 2007. On August 16, 2007, the Village Council approved the revised budget reflected in the financial statements for fiscal year ending June 30, 2007.

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

Note 2 – Material Violations

There were no material violations of the annual appropriated budgets for the General Fund for the fiscal year ended June 30, 2007. In addition, there were no excesses of budgetary expenditures for the period.