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

**Financial Statements,
Supplementary Information
and Report of Independent
Certified Public Accountants**

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

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Table of Contents
June 30, 2012 and 2011

DESCRIPTION	EXHIBIT
Report of Independent Certified Public Accountants	
Management's Discussion and Analysis	
Basic Financial Statements	
Government-Wide Financial Statements:	
Statements of Net Assets	A-1
Statement of Program Activities	A-2
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheets	A-3
Statements of Revenues, Expenditures and Changes in Fund Balances	A-4
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities	A-5
Notes to Financial Statements	A-6
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	B-1
Notes to Required Supplemental Information	B-2

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, each major fund and the aggregate remaining fund information of the Village of Martin's Additions, Maryland (the Village), as of and for the years ended June 30, 2012 and 2011, 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, each major fund and the aggregate remaining fund information of the Village of Martin's Additions, Maryland as of June 30, 2012 and 2011, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information while not part of the basic financial statements is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in

the United States of America, which consisted of inquires of management regarding 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 out audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

October 16, 2012

Lester Shafer Warfield & Ganett

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, 2012. 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 \$1,564,973 (net assets). Of this amount, \$1,360,994 (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 \$303,849.
- As of the close of the fiscal year, the Village of Martin's Additions governmental funds reported combined ending fund balances of \$1,360,623, an increase of \$281,917 in comparison with the prior year. Approximately 55% of this total amount, \$751,572, is available for spending at the government's discretion (unassigned fund balance). Of the remaining balance of \$609,051, \$9,051 is nonspendable as it is a prepaid expense and \$600,000 is assigned for street improvements.

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 \$1,564,973 at the close of the most recent fiscal year.

Approximately 13% 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	\$ 1,412,386
Capital assets	<u>203,979</u>
Total assets	<u>1,616,365</u>
Other liabilities	<u>51,392</u>
Total liabilities	<u>51,392</u>
Net assets	<u>\$ 1,564,973</u>
Invested in capital assets	\$ 203,979
Unrestricted	<u>1,360,994</u>
Total net assets	<u>\$ 1,564,973</u>

The unrestricted net assets of \$1,360,994 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 \$303,849. The largest increase in net assets was an increase in income taxes by \$199,164 over the prior year amount. This was the result of an improvement in the economy and a corresponding increase in income and capital gains for the residents within the Village.

Village of Martin's Additions Changes in Net Assets

	Governmental Activities
Revenues:	
Program revenues:	
Charges for services	\$ 16,872
Operating grants and contributions	15,769
General revenues:	
Taxes	704,345
Other	<u>25,707</u>
Total Revenues	<u>\$ 762,693</u>
Expenses:	
General government	\$ 233,926
Building & Zoning	51,345
Public works	170,812
Public safety	-
Recreation	<u>2,761</u>
Total Expenses	<u>\$ 458,844</u>
Increase in net assets	\$ 303,849
Net assets, July 1, 2011	<u>1,261,124</u>
Net assets, June 30, 2012	<u>\$ 1,564,973</u>

Taxes of \$704,345 comprised 92% of the total revenues of \$762,693. 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.

During the fiscal year income taxes increased significantly from \$353,851 to \$553,015. This increase was the result of the economy improving and therefore, the income levels and tax liabilities of the Village resident increasing.

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 effects of these amendments are shown in the schedule below. A detailed analysis can also be found in Exhibit B-1 of the financial statements. The final budgeted revenues were \$92,972 greater than the original budget. The biggest changes were a \$75,000 increase in projected income taxes and a \$10,000 increase in permit fees. At the end of the fiscal year actual income taxes were \$153,015 greater than the revised budget and permit fees were \$10,489 less than the revised budget.

The final budgeted expenditures were \$215,328 less than the original budgeted amount. The largest decrease was in capital improvements for street and sidewalk work in the amount of \$251,000. It was decided by the Council that these projects would not be undertaken during fiscal year 2012. Final budgeted expenditures increased over the original budget for legal, building and permitting and street maintenance in the amount of \$11,000, \$23,000 and \$20,000 respectively.

Actual revenues exceeded expenditures by \$281,917 in the General Fund for fiscal year 2012. In fiscal year 2011 expenditures exceeded revenues by \$143,571.

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. The major difference in revenues between the final budget and actual was attributed to a higher than expected collection of income taxes. Income taxes were budgeted at \$400,000 and actual collections totaled \$553,015.

General Fund	Original Budget	Final Budget	Actual
Revenues			
Taxes	\$ 469,000	\$ 549,600	\$ 704,080
Licenses and Permits	16,500	27,000	16,782
Intergovernmental	30,445	32,445	32,909
Other	<u>8,100</u>	<u>7,972</u>	<u>8,657</u>
Total	<u>524,045</u>	<u>617,017</u>	<u>762,428</u>
Expenditures			
General Government	\$273,213	\$ 303,885	\$ 286,407
Public Works	557,000	311,000	191,343
Recreation	<u>6,000</u>	<u>6,000</u>	<u>2,761</u>
Total	<u>836,213</u>	<u>620,885</u>	<u>480,511</u>
Change in Fund Balance	<u><u>\$ (312,168)</u></u>	<u><u>\$ (3,868)</u></u>	<u><u>\$ 281,917</u></u>

CAPITAL ASSETS

At the end of fiscal year 2012, the Village's governmental activities have invested \$12,221 in office equipment, \$1,381 in leasehold improvements and \$229,144 in infrastructure, as reflected in the following schedule. Total depreciation for the 2012 fiscal year was \$7,075 and accumulated depreciation for all assets was \$38,767. The net capital assets for the Village at the end of the fiscal year was \$203,979.

Governmental Activities - Capital Assets

	Governmental <u>Activities</u>
Non-Depreciable Assets	None
Other Capital Assets	
Infrastructure	229,144
Equipment	12,221
Leasehold Improvements	<u>1,381</u>
Total Capital Assets	242,746
Accumulated Depreciation on Other Capital Assets	<u>(38,767)</u>
Net Capital Assets	<u>\$ 203,979</u>

ECONOMIC FACTORS

Overall, fiscal year 2012 was a positive year. The Village's fund balance increased \$281,917 for an ending fund balance of \$1,360,623. The Village Council maintained a conservative approach in formulating the FY2013 budget to make sure that the Village maintains a healthy financial position into the future.

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>2012</u>	Governmental Activities <u>2011</u>
Assets		
Cash and cash equivalents	\$ 285,716	\$ 53,063
Investments	1,076,332	1,066,167
Receivables, net	532	7,345
Due from other governments	40,755	2,871
Prepaid expenses	9,051	1,767
Capital assets, net	<u>203,979</u>	<u>182,312</u>
 Total Assets	 <u>\$ 1,616,365</u>	 <u>\$ 1,313,525</u>
 Liabilities		
Accounts payable	\$ 38,369	\$ 34,383
Refundable deposits	<u>13,023</u>	<u>18,018</u>
 Total Liabilities	 <u>51,392</u>	 <u>52,401</u>
 Net Assets		
Invested in capital assets	203,979	182,312
Unrestricted	<u>1,360,994</u>	<u>1,078,812</u>
 Total Net Assets	 <u>1,564,973</u>	 <u>1,261,124</u>
 Total Liabilities and Net Assets	 <u>\$ 1,616,365</u>	 <u>\$ 1,313,525</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, 2012 (with comparative totals for 2011)

Functions/Programs	Program Revenue				Net (Expenses) Revenue and Changes in Net Assets	
	Charges for Services		Operating Grants and Contributions		Governmental Activities	2012 Total
	Expenses					2011 Total
Governmental Activities						
General government	\$ 233,926	\$ -	\$ 6,872	\$ (227,054)	\$ (227,054)	\$ (224,952)
Building and zoning	51,345	16,782	-	(34,563)	(34,563)	(7,263)
Public works	170,812	-	8,897	(161,915)	(161,915)	(164,609)
Public safety	-	90	-	90	90	3,607
Recreation	2,761	-	-	(2,761)	(2,761)	(2,898)
Total Governmental Activities	\$ 458,844	\$ 16,872	\$ 15,769	(426,203)	(426,203)	(396,115)
General Revenues						
Property taxes				151,330	151,330	150,858
Income taxes				553,015	553,015	353,851
Intergovernmental				24,012	24,012	24,012
Interest				1,695	1,695	2,910
Total General Revenues				730,052	730,052	531,631
Change in Net Assets				303,849	303,849	135,516
Net Assets, Beginning of Year				1,261,124	1,261,124	1,125,608
Net Assets, End of Year				\$ 1,564,973	\$ 1,564,973	\$ 1,261,124

The accompanying notes are an integral part of this statement.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Balance Sheets
Governmental Funds
June 30,

	2012	2011
	General	General
	Fund	Fund
Assets		
Cash and cash equivalents	\$ 285,716	\$ 53,063
Investments	1,076,332	1,066,167
Receivables, net	532	7,345
Due from other governments	40,755	2,871
Prepaid expenses	9,051	1,767
Total Assets	\$ 1,412,386	\$ 1,131,213
Liabilities		
Accounts payable	\$ 38,369	\$ 34,383
Refundable deposits	13,023	18,018
Deferred property taxes	371	106
Total Liabilities	51,763	52,507
Fund Balances		
Nonspendable		
Prepaid expenses	9,051	1,767
Assigned		
Fund balance for next year's operations	-	312,168
Street improvements	600,000	600,000
Unassigned	751,572	164,771
Total Fund Balances	1,360,623	1,078,706
Total Liabilities and Fund Balances	\$ 1,412,386	\$ 1,131,213
Reconciliation of Total Governmental Fund Balances To Net Assets of the Governmental Activities		
Total Governmental Fund Balances	\$ 1,360,623	\$ 1,078,706
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.	371	106
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	203,979	182,312
Net Assets of Governmental Activities	\$ 1,564,973	\$ 1,261,124

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,

	2012	2011
	General	General
	Fund	Fund
	<u> </u>	<u> </u>
Revenues		
Property taxes	\$ 151,065	\$ 152,059
Taxes - state shared	553,015	353,851
Licenses and permits	16,782	21,287
Intergovernmental	32,909	26,833
Grants	-	-
Miscellaneous	<u>8,657</u>	<u>15,492</u>
 Total Revenues	 <u>762,428</u>	 <u>569,522</u>
 Expenditures		
General government	286,407	258,452
Public safety	-	-
Public works	191,343	164,601
Recreation	<u>2,761</u>	<u>2,898</u>
 Total Expenditures	 <u>480,511</u>	 <u>425,951</u>
 Excess of Revenues Over Expenditures	 281,917	 143,571
 Fund Balance - Beginning of Year	 <u>1,078,706</u>	 <u>935,135</u>
 Fund Balance - End of Year	 <u>\$ 1,360,623</u>	 <u>\$ 1,078,706</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>2012</u>	<u>2011</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 281,917	\$ 143,571
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.	265	(1,200)
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 does (
does (does not) exceed capital outlay in the current period.	<u>21,667</u>	<u>(6,855)</u>
Net Changes in Net Assets	<u>\$ 303,849</u>	<u>\$ 135,516</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

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 accounting and financial reporting requirements of GASB Statements No. 34, Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. GASB 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.

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.)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

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

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.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

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

The government-wide statements are reported using the economic resources measurement focus, and the accrual basis of accounting. 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 deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year which are for subsequent years' operations. For governmental fund financial statements deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Village has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The Village reports the following major governmental funds:

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, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

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

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.

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, 2012 and 2011, there was \$229,144 and \$202,394 of infrastructure recorded on the books, respectively.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

3. Capital Assets (continued)

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

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 residential real property tax rates for the Village for fiscal years ended June 30, 2012 and 2011 was .0460 and .04, respectively, per \$100 of assessed taxable value. The public utilities tax rates for fiscal years ended June 30, 2012 and 2011 was \$1.45, respectively, per \$100 of assessed taxable value. The commercial property tax rates for fiscal years ended June 30, 2012 and 2011 was .10, respectively, per \$100 of assessed taxable value. The personal property tax rates for fiscal years ended June 30, 2012 and 2011 was .50, 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.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

6. Use of Estimates

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

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

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

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

Note 3 – Detailed Notes on All Funds

- A. Deposits and Investments

Deposits

State statutes require all deposits be insured by the Federal Deposit 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, 2012 and 2011, the carrying amounts of the Village's deposits were \$285,716 and \$52,962, respectively, and the bank balances totaled \$309,238 and \$72,031 respectively, all of which are insured by Federal Deposit Insurance.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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, 2012 and 2011 were \$1,076,332 and \$1,066,167, respectively.

B. Receivables

Receivables as of June 30, 2012 and 2011 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>2012</u>	<u>2011</u>
Property taxes	\$ 371	\$ 7,258
Other	<u>161</u>	<u>87</u>
Gross Receivables	532	7,345
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>
Total Receivables - Net	<u>\$ 532</u>	<u>\$ 7,345</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.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

C. Due From Other Governments

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

	<u>2012</u>	<u>2011</u>
State		
General Fund	38,977	1,235
Total State	38,977	1,235
County		
General Fund	1,778	1,636
Total County	1,778	1,636
Total Primary Government	<u>\$ 40,755</u>	<u>\$ 2,871</u>

D. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Equipment	\$ 10,229	\$ 1,992	\$ -	\$ 12,221
Leasehold improvements	1,381	-	-	1,381
Infrastructure	202,394	26,750	-	229,144
Total capital assets being depreciated	214,004	28,742	-	242,746
Less accumulated depreciation for:				
Equipment	(8,619)	(1,208)	-	(9,827)
Leasehold improvements	(690)	(138)	-	(828)
Infrastructure	(22,383)	(5,729)	-	(28,112)
Total accumulated depreciation	(31,692)	(7,075)	-	(38,767)
Total capital assets, being depreciated, net	182,312	21,667	-	203,979
Governmental activities capital assets, net	<u>\$ 182,312</u>	<u>\$ 21,667</u>	<u>\$ -</u>	<u>\$ 203,979</u>

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

D. Capital Assets (continued)

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

	<u>2012</u>	<u>2011</u>
Governmental activities		
General government	\$ 856	\$ 1,305
Public works	<u>6,219</u>	<u>5,550</u>
Total Depreciation Expense	<u>\$ 7,075</u>	<u>\$ 6,855</u>

E. Fund Balance

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

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

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

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the Village of Martin's Additions.

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

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

Committed Fund Balance

The Village's Committed Fund Balance is fund balance reporting because of motions that passed at Village Council meetings. As of June 30, 2012 there were no committed fund balances.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 3 – Detailed Notes on All Funds (continued)

E. Fund Balance (continued)

Assigned Fund Balance

The Village's Assigned Fund Balance is fund balance reporting occurring by the Chairperson and Village Council. Amounts assigned by the Council include street improvements of \$600,000.

Order of Fund Balance Spending Policy

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

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

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 Local Government Insurance Trust which is a self-insurance pool. The Village paid annual premiums of approximately \$1,074 and \$4,740 for the fiscal years ended June 30, 2012 and 2011, 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 \$500,000 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.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Financial Statements
June 30, 2012 and 2011

Note 4 – Commitment and Contingencies (continued)

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. Total rent expense for the fiscal year ended June 30, 2012 and 2011 was \$27,361 and \$26,417, respectively.

The minimum lease payments are as follows:

For the Fiscal Year Ending

2013	\$	23,748
2014		23,748
2015		23,748
2016		24,383
2017		26,288

C. Employee's Pension Plan

In 2010, the Village adopted a 457 retirement plan. This plan allows employees to contribute to the plan and the Village contributes 6% of each qualified employee's salary. To be qualified an employee has to have six months of service with the Village and be at least 18 years of age. After the qualification requirements have been met, each employee becomes fully vested after 5 years. Employee contributions are 100% vested. During the fiscal years ended June 30, 2012 and 2011, the Village contributed \$4,098 and \$3,947, respectively, to the plan.

Note 5 – Subsequent Events

Management has evaluated subsequent events through October 16, 2012, the date that the financials statements were available to be issued. There were no significant events to report.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2012

	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Revenues				
Taxes				
Local				
Real property tax	\$ 133,000	\$ 134,000	\$ 136,089	\$ 2,089
Utility tax	6,000	12,600	12,560	(40)
Personal property, ordinary business tax	<u>5,000</u>	<u>3,000</u>	<u>2,493</u>	<u>(507)</u>
Total Taxes - Local	144,000	149,600	151,142	1,542
Prior year additions/abatelements	<u>-</u>	<u>-</u>	<u>(77)</u>	<u>(77)</u>
Total Taxes - Local - Net	<u>144,000</u>	<u>149,600</u>	<u>151,065</u>	<u>1,465</u>
State Shared				
Income tax	<u>325,000</u>	<u>400,000</u>	<u>553,015</u>	<u>153,015</u>
Total Taxes - State Shared	<u>325,000</u>	<u>400,000</u>	<u>553,015</u>	<u>153,015</u>
Total Taxes	<u>469,000</u>	<u>549,600</u>	<u>704,080</u>	<u>154,480</u>
Licenses and Permits				
Permit fees	10,000	20,000	9,511	(10,489)
Cable T.V. franchise tax	<u>6,500</u>	<u>7,000</u>	<u>7,271</u>	<u>271</u>
Total Licenses and Permits	<u>16,500</u>	<u>27,000</u>	<u>16,782</u>	<u>(10,218)</u>
Intergovernmental Revenues				
State highway user	8,445	8,445	8,897	452
County revenue sharing	<u>22,000</u>	<u>24,000</u>	<u>24,012</u>	<u>12</u>
Total Intergovernmental Revenues	<u>\$ 30,445</u>	<u>\$ 32,445</u>	<u>\$ 32,909</u>	<u>\$ 464</u>

(continued)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2012

	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Miscellaneous				
Code infractions	\$ 100	\$ 100	\$ 90	\$ (10)
Interest	2,000	1,000	1,695	695
Holiday fund	<u>6,000</u>	<u>6,872</u>	<u>6,872</u>	<u>-</u>
Total Miscellaneous	<u>8,100</u>	<u>7,972</u>	<u>8,657</u>	<u>685</u>
Total Revenues	<u>\$ 524,045</u>	<u>\$ 617,017</u>	<u>\$ 762,428</u>	<u>\$ 145,411</u>

(continued)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2012

Expenditures	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
General Government				
Financial Administration				
Administrative salaries	\$ 92,500	\$ 92,500	\$ 89,561	\$ 2,939
Payroll taxes and benefits	15,613	15,613	15,214	399
Accounting and auditing	28,000	28,000	27,700	300
Legal	25,000	36,000	34,204	1,796
Dues and subscriptions	7,000	7,000	3,650	3,350
Office lease	28,000	28,000	27,362	638
Office expenses	14,000	14,000	13,714	286
Office furniture and equipment	5,500	5,500	4,042	1,458
Telephone	4,000	4,000	2,379	1,621
Storage rental	2,100	1,800	1,815	(15)
Survey upkeep	3,000	3,000	-	3,000
Printing and mailing	12,000	12,000	7,373	4,627
Insurance	4,000	1,100	1,074	26
Website	1,500	500	299	201
Total Financial Administration	<u>242,213</u>	<u>249,013</u>	<u>228,387</u>	<u>20,626</u>
Other General Government				
Building and permitting	25,000	48,000	51,345	(3,345)
Holiday fund	<u>6,000</u>	<u>6,872</u>	<u>6,675</u>	<u>197</u>
Total Other General Government	<u>31,000</u>	<u>54,872</u>	<u>58,020</u>	<u>(3,148)</u>
Total General Government				
Expenditures	<u>\$ 273,213</u>	<u>\$ 303,885</u>	<u>\$ 286,407</u>	<u>\$ 17,478</u>

(continued)

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2012

	Budgeted Amount <u>Original</u>	Budgeted Amount <u>Final</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
Public Works				
Highways and Streets				
Street lighting	\$ 17,000	\$ 17,000	\$ 13,494	\$ 3,506
Tree maintenance	30,000	30,000	32,457	(2,457)
Tree replacement	10,000	10,000	9,725	275
Street cleaning- fall/spring	12,000	12,000	11,200	800
Street maintenance- other	20,000	40,000	10,308	29,692
Right-of-way maintenance	3,000	3,000	1,625	1,375
Snow removal - plowing	15,000	7,500	1,700	5,800
Snow removal - shoveling	10,000	2,500	-	2,500
Street lighting reserve	100,000	100,000	-	100,000
Taylor street improvements	66,000	-	-	-
Turner Lane sidewalk improvements	20,000	-	-	-
Brookville Road sidewalks	165,000	-	26,270	(26,270)
Total Highway and Streets	<u>468,000</u>	<u>222,000</u>	<u>106,779</u>	<u>115,221</u>
Sanitation and Waste Removal				
Waste collection and recycling	84,000	84,000	79,839	4,161
Leaf bags	5,000	5,000	4,725	275
Total Sanitation and Waste Removal	<u>89,000</u>	<u>89,000</u>	<u>84,564</u>	<u>4,436</u>
Total Public Works Expenditures	<u>557,000</u>	<u>311,000</u>	<u>191,343</u>	<u>119,657</u>
Recreation				
Community events	6,000	6,000	2,761	3,239
Total Recreation	<u>6,000</u>	<u>6,000</u>	<u>2,761</u>	<u>3,239</u>
Total Expenditures	<u>\$ 836,213</u>	<u>\$ 620,885</u>	<u>\$ 480,511</u>	<u>\$ 140,374</u>

The accompanying notes are an integral part of this schedule.

VILLAGE OF MARTIN'S ADDITIONS, MARYLAND
Notes to Required Supplemental Information
June 30, 2012

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 May 12, 2011, the Village Council approved the original adopted budget for the fiscal year ended June 30, 2012. On March 29, 2012, the Village Council approved the revised budget reflected in the financial statements for fiscal year ending June 30, 2012.

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, 2012. In addition, there were no excesses of budgetary expenditures for the period.