

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, 2010. 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 \$1,125,608 (net assets). Of this amount, \$936,441 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$260,211.
- As of the close of the fiscal year, the Village of Martin's Additions governmental funds reported combined ending fund balances of \$935,135, a decrease of \$254,695 in comparison with the prior year. Approximately 36% of this total amount, \$332,840, is available for spending at the government's discretion (unreserved fund balance). The balance of \$602,295 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 \$1,125,608 at the close of the most recent fiscal year.

Approximately 17% 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	\$ 986,371
Capital assets	<u>189,167</u>
Total assets	<u>1,175,538</u>
Other liabilities	<u>49,930</u>
Total liabilities	<u>49,930</u>
Net assets	<u>\$ 1,125,608</u>
Invested in capital assets	\$ 189,167
Unrestricted	<u>936,441</u>
Total net assets	<u>\$ 1,125,608</u>

The unrestricted net assets of \$936,441 may be used to meet the government’s ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities decreased the Village of Martin’s Additions net assets by \$260,211. The biggest cause for this decrease in net assets was a decrease in income taxes by \$384,994 over the prior year amount.

Village of Martin's Additions Changes in Net Assets

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 16,916
Operating grants and contributions	23,667
General revenues:	
Taxes	326,023
Other	<u>28,773</u>
Total Revenues	<u>\$ 395,379</u>
Expenses:	
General government	\$ 237,941
Building & Zoning	29,774
Public works	323,650
Public safety	40,925
Recreation	<u>23,300</u>
Total Expenses	<u>\$ 655,590</u>
Decrease in net assets	\$ 260,211
Net assets, July 1, 2009	<u>1,385,819</u>
Net assets, June 30, 2010	<u>\$ 1,125,608</u>

Taxes of \$326,023 comprised 83% of the total revenues of \$395,379. 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, the revenues for the Village were impacted greatly. Three revenue accounts were severely under budget and under the prior year's level. These include income taxes, state highway user revenue and interest on investments. State income taxes for the year totaled \$293,972. This amount was \$156,028 under budget and \$384,995 less than the prior year's level of \$678,967. As this income source is the largest revenue for

the Village, it impacted the level of capital improvement projects that were planned for the year and forced the Village to revisit the budget throughout the year.

Also during the year the State cut highway user funding by 90%. This resulted in the Village only receiving \$3,851 from this revenue source. This was \$26,149 less than budgeted and \$28,937 less than the prior year amount. This cut is expected to continue into future fiscal years.

Interest rates were at an all time low during the year. This affected the amount of investment income that the Village received. With close to a \$1,000,000 average investable cash balance during the year the Village was only able to achieve interest income of \$2,294 for the year. This was \$12,706 less than budget and \$13,070 less than the prior year. Interest rates are projected to remain low through the next fiscal year.

During the year the State of Maryland experienced two major snow storms. As a result of the storms the Village incurred \$84,078 in snow removal costs. The original snow removal budget was \$30,000. The Village was able to recover \$14,084 from the Federal Emergency Management Agency for cost related to these storms. The Village still had to cover close to \$40,000 of costs for this storm over the budgeted amount.

With the decrease in income tax revenues and cuts in state aid the Village was forced to tighten the budget during the year. Most of the expenditure accounts finished at or below the prior year figures. The Village still proceeded with needed street and sidewalk work in the amount of \$25,270 on Taylor Street, Turner Lane and Brookville Road. These repairs were far less than the originally budgeted \$267,000. The Village also proceeded with the purchase of new recycling bins for the community at a cost of \$18,846.

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 all three of these categories. The effects of these amendments are shown in the schedule below. Most of the major impacts on the budget were discussed in the prior discussion regarding the Governmental Funds. A detailed analysis can also be found in Exhibit B-1 of the financial statements. The final budgeted expenditures increased \$34,700 over the original budget for expenditures. This increase is mainly associated with the adjustments made to allocate funds for snow removal costs due to the two major snow events that the State and Village encountered during the year.

Actual expenditures exceeded revenues by \$254,695 in the General Fund for fiscal year 2010. In fiscal year 2009 revenues exceeded expenditures by \$219,619.

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 the public works department is the fact that \$241,730 additional was budgeted for street and sidewalk work but was not completed due to the decreases in revenue encountered during the year.

General Fund	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Taxes	\$ 482,000	\$ 702,450	\$ 706,295
Licenses and Permits	16,500	21,500	17,530
Intergovernmental	49,850	53,850	52,638
Grants	-	-	14,084
Other	<u>21,500</u>	<u>21,500</u>	<u>12,095</u>
Total	<u>569,850</u>	<u>569,850</u>	<u>395,798</u>
Expenditures			
General Government	\$ 279,000	\$ 284,500	\$ 268,170
Public Safety	50,000	42,000	40,925
Public Works	566,500	603,700	318,098
Recreation	<u>25,000</u>	<u>25,000</u>	<u>23,300</u>
Total	<u>920,500</u>	<u>955,200</u>	<u>650,493</u>
Change in Fund Balance	<u>\$ (350,650)</u>	<u>\$ (385,350)</u>	<u>\$ (254,695)</u>

CAPITAL ASSETS

At the end of fiscal year 2010, the Village's governmental activities have invested \$10,229 in office equipment, \$1,381 in leasehold improvements and \$202,394 in infrastructure, as reflected in the following schedule. Total depreciation for the 2010 fiscal year was \$6,695 and accumulated depreciation for all assets was \$24,837.

Governmental Activities - Capital Assets

	<u>Governmental Activities</u>
Non-Depreciable Assets	None
Other Capital Assets	
Infrastructure	202,394
Equipment	10,229
Leasehold Improvements	<u>1,381</u>
Total Capital Assets	214,004
Accumulated Depreciation on Other Capital Assets	<u>(24,837)</u>
Net Capital Assets	<u>\$ 189,167</u>

ECONOMIC FACTORS

Overall, fiscal year 2010 provided many challenges to the Village. Income tax revenues ended the year \$156,028 under budget and \$384,995 less than fiscal year 2009. The total Village fund balance decreased \$254,695 for an ending fund balance of \$935,135. Interest rates and return on investments suffered during the year. The State cut Highway User revenues by 90% in order to help balance the State's budget. While these revenue items impacted the Village's financial position during the year the Village still ended the fiscal year with a healthy surplus. With the uncertain economic climate in the near future the Village Council took appropriate action in formulating the FY2011 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.