



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014



herndon-va.gov

TOWN OF HERNDON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2014

Prepared by the
Department of Finance

TOWN OF HERNDON, VIRGINIA

TABLE OF CONTENTS

<i>INTRODUCTORY SECTION</i>		
Letter of Transmittal		i – vii
Certificate of Achievement for Excellence in Financial Reporting		viii
Organizational Chart		ix
Directory of Officials		x
<i>FINANCIAL SECTION</i>		
Independent Auditor's Report		3 – 5
Management's Discussion and Analysis		7 – 27
<i>Basic Financial Statements</i>		
Exhibit A-1	Statement of net position	29
Exhibit A-2	Statement of activities	30
Exhibit A-3	Balance sheet – governmental funds	31 – 32
Exhibit A-4	Reconciliation of the balance sheet of the governmental funds to the statement of net position	33
Exhibit A-5	Statement of revenues, expenditures and changes in fund balances – governmental funds	34 – 35
Exhibit A-6	Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	36
Exhibit A-7	Statement of revenues, expenditures and changes in fund balances – budget and actual – general fund	37 – 38
Exhibit A-8	Statement of net position – proprietary funds	39 – 40
Exhibit A-9	Statement of revenues, expenses and changes in net position – proprietary funds	41 – 42
Exhibit A-10	Statement of cash flows – proprietary funds	43 – 44
Exhibit A-11	Statement of net position – fiduciary fund	45
Exhibit A-12	Statement of changes in net position – fiduciary fund	46
	Notes to financial statements	47 – 88

Required Supplementary Information

Schedules of funding progress and schedule of employer contributions	91
--	----

Supplementary Information

Exhibit B-1	Combining balance sheet – nonmajor governmental funds	96
Exhibit B-2	Combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds	97

Supplemental Schedules

Exhibit B-3	General fund - balance sheet	100
Exhibit B-4	General fund - schedule of revenues – budget and actual	101 – 103
Exhibit B-5	General fund - schedule of expenditures – budget and actual	104 – 109
Exhibit B-6	Schedule of revenues, expenditures and changes in fund balances – budget and actual – Capital Projects and Information Systems Improvements Funds	110
Exhibit B-7	Capital projects fund - schedule of actual revenues and other financing sources (uses) compared with estimated revenues	111 – 120
Exhibit B-8	Capital projects fund - schedule of expenditures compared with authorizations	121 – 122
Exhibit B-9	Information systems improvement fund schedule of expenditures compared with authorizations	123
Exhibit B-10	Schedule of revenues, expenses and changes in net position – budget and actual – Water and Sewer Fund	124
Exhibit B-11	Schedule of revenues, expenses and changes in net position – budget and actual – Golf Course Fund	125
Exhibit B-12	Schedule of revenues, expenses and changes in net position – budget and actual – Chestnut Grove Cemetery Fund	126
Exhibit B-13	Schedule of revenues, expenses and changes in net position – budget and actual – Downtown Parking Fund	127

STATISTICAL SECTION

Table 1	Net position by component	132
Table 2	Changes in net position	133 – 135
Table 3	Program revenues by function/program	136
Table 4	Fund balances, governmental funds	137
Table 5	Changes in fund balances, governmental funds	138 – 139
Table 6	Tax revenues by source, governmental funds	140
Table 7	Assessed value and estimated actual value of taxable property	141
Table 8	Direct and overlapping property tax rates	142
Table 9	Principal property taxpayers	143
Table 10	Real property tax levies and collections	144
Table 11	Ratios of outstanding debt by type and general bonded debt outstanding	145
Table 12	Direct and overlapping governmental activities debt	146
Table 13	Legal debt margin information	147
Table 14	Bond coverage	148
Table 15	Demographic and economic statistics	149
Table 16	Principal employers	150
Table 17	Full-time equivalent town government employees by function/program	151 – 152
Table 18	Operating indicators by function/program	153
Table 19	Capital asset statistics by function/program	154

COMPLIANCE SECTION

Schedule of Expenditures of Federal Awards	157
Notes to Schedule of Expenditures of Federal Awards	158
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	159-160

Independent Auditor's Report on Compliance With Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	161 -162
Schedule of Findings and Questioned Costs	163
Summary Schedule of Prior Audit Findings	164



Mary K. Tuohy, MPA, CPA
Director of Finance
Department of Finance

T (703) 435-6810
F (703) 435-8121
mary.tuohy@herndon-va.gov

TOWN COUNCIL
Lisa C. Merkel, Mayor
Jennifer Baker, Vice Mayor
David A. Kirby
Steven Lee Mitchell
Sheila A. Olem
Jasbinder Singh
Grace Han Wolf

November 21, 2014

The Honorable Mayor, Members of the Town Council and Citizens of the Town of Herndon, Virginia

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2014. The Herndon Town Charter, Section 4.2 (f), requires that the Town Manager arrange for an annual audit by a certified public accountant. In addition, Section 15.2-2511 of the *Code of Virginia* requires that all counties, cities and towns with populations greater than 3,500 as well as all towns with a separate school system, regardless of size, have their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts of the Commonwealth of Virginia. This report is formally submitted to you in fulfillment of those requirements.

The financial statements included in this report, which have earned an unmodified audit opinion, conform to the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), and the Auditor of Public Accounts.

Town management is responsible for the accuracy, fairness and completeness of the information, including all disclosures presented in this report. To the best of our knowledge, the enclosed data is believed to be accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the town. All necessary disclosures have been included to enable the reader to gain a thorough understanding of the town's financial affairs. For additional information regarding the basic financial statements and the town's financial position, please refer to Management's Discussion and Analysis (MD&A) which appears in the financial section of the report.

Town management is also responsible for establishing and maintaining an internal control structure designed to ensure the assets of the town are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The town's financial statements have been audited by PBMares, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance the financial statements of the town for the fiscal year ended June 30, 2014 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by town management; and evaluating the overall financial statement presentation. The independent auditors' report is presented as the first component of the report's financial section.

PROFILE OF THE TOWN

The Town of Herndon, located in the northwest quadrant of Fairfax County, has a land area of 4.28 square miles and is situated twenty-three miles west of Washington, D. C. Incorporated in 1879, the town originally relied on dairy farming and the railroad to provide its economic security. The town was at one time in the heart of Northern Virginia's important dairy farming community. And, until about sixty years ago, it remained essentially a quiet country village where well-to-do Washingtonians rode the railroad to summer vacation homes. Since that time, the town's economic and demographic makeup has changed significantly. The estimated 2014 population is now 23,592 persons, housed in 7,901 dwelling units. If the town is developed according to the currently adopted Comprehensive Plan (master plan), it is anticipated that the 2030 population will increase to approximately 27,700 and 9,700 dwelling units.

The town is organized under the council/manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the town. The Mayor and six members of the Council are elected simultaneously for two-year terms. The Council appoints a Town Manager to be the administrative head of the town. The Manager is charged with directing all business affairs of the town.

The town provides the usual general governmental services for its citizens that are typical of towns in Virginia. These include public works and utilities, parks and recreation, police protection, community development, and other administrative services. In Virginia, incorporated towns are an integral part of the county in which they are located. The citizens of the town, therefore, pay Fairfax County property taxes (real estate and personal property), in addition to town taxes. In exchange, Fairfax County provides public education, certain technical and special education, libraries, health and human services, mental health assistance, fire and ambulance services, judicial services, correctional facilities and additional recreation activities and facilities.

ECONOMIC CONDITIONS AND OUTLOOK

Local Economy

Several economic and demographic factors heavily influence the town's revenue stream, including current and projected inflation rates, unemployment rates, retail sales volumes, new construction activities, real estate sales transactions, population movements and income per capita. For the past several years, Fairfax County has ranked in the top echelon of large U.S. counties with the highest median household incomes. According to the American Community Survey, the County's median household income in 2013 was \$109,383, the second highest in the nation for counties with populations of 250,000 or more.

During the past several years, Herndon has been recognized nationally by *Business Week*, *Money* magazines as well as CNN/Money.com and Forbes.com as one of the "best affordable suburbs" in the nation. Over the past two years, the town achieved national recognition from the editors of Bloomberg/Business Week and Forbes.com. Herndon was recognized for its kid-friendly events and activities and ranked #12 by Forbes in its listing of "America's Friendliest Towns" with populations between 5,500 and 150,000. The town was cited specifically for its low unemployment rate, its community celebrations and its nature-themed festivals and initiatives.

Many economists believe the national economy, which slid into recession in December 2007, is continuing to slowly recover. The town itself saw a three percent increase in its other local tax collections over the prior fiscal year. Many of these local taxes are dependent on consumer spending. Another hopeful sign is the U.S. unemployment rate which dropped from 7.3 percent in August 2013 to 6.1 percent in August 2014. Closer to home, Fairfax County's unemployment rate, which peaked at 5.2 percent in June 2009 was at 4.6 percent by August 2014.

However, federal budget deficits and the impacts of sequestration continue to have a significant influence on the local economy. Many area employers, especially those tied to the defense industry, continue to hold off adding new jobs or expanding their operations until there is more certainty. The town's economic base is heavily dependent on businesses which perform information technology and other IT-related services for both the public and private sectors. Within this group, a large portion of the work is performed for such federal agencies as defense and homeland security. Thus, continued declines in federal contracting opportunities could have a significant adverse impact on the town's business license assessments, meals tax collections and transient lodging tax collections as well as impact the value of its commercial properties.

Despite the continuing challenges and uncertainties, Herndon's current economic health remains comparatively sound and the town's business climate is strong. The town's overall economic outlook (despite continuing federal budget deficit issues), assumes a continued modest rebound in property values for 2015 through 2017, along with modest growth rates of one to three percent in other local tax sources. With the planned extension of Metrorail to Dulles Airport, development of Herndon's downtown according to the adopted master plan, the beginnings of development and redevelopment surrounding the Herndon Metrorail area and the strength of our business community in general, positive signs of economic vitality are evident.

Long-term Financial Planning and Outlook

The 2030 Vision Plan adopted by the Town Council calls for a future in which "history and heritage are respected" and in which "Herndon is the anchor of an expanded community where positive benefits extend beyond the town's boundaries." The 2030 Vision's eight tenets are the cornerstone upon which all town initiatives are built.

The town's 2030 Comprehensive Plan addresses the redevelopment of the areas surrounding access to the Herndon-Monroe rail station at the southern edge of the town. This transit station is part of Phase 2 of Dulles Rail, a project that is expected to bring the Washington area Metrorail system (dubbed the "Silver Line") to the Herndon area by 2019. The connection by rail of the town and its commercial districts to the entire metropolitan Washington region creates a vastly enhanced marketplace that will likely have broad appeal to businesses. The town continues its focus on planning for development and redevelopment at the future Metrorail area. The plan provides for large scale transit-oriented mixed use redevelopment in the vicinity of the Herndon Metrorail Station. The final plan is anticipated to allow for redevelopment of existing low rise office and back office areas resulting in approximately 6.9 million square feet of high quality office, residential, hotel and retail space.

Planning for the redevelopment of Herndon's downtown is also a priority. During fiscal year 2014, the Town Council adopted new architectural design and zoning guidelines to aid in capitalizing on new redevelopment opportunities.

The town's close proximity to Washington Dulles International Airport provides a major stimulus for commercial development. The airport itself has completed a multi-billion dollar capital construction program resulting in a redesigned facility capable of accommodating significant increases in passenger traffic and airport operations. In fact, the entire Dulles Corridor, in which the town is centrally located, is on the cusp of a new era of growth. Over the next 20 years, population in the Dulles Corridor is expected to increase by 45 percent and job growth by 63 percent. This growth potential, along with steady increases in the number of new information system technology and security-related businesses, will have a positive influence on the town and its economic vitality.

FINANCIAL INFORMATION

Financial Policies

A key component of the town's annual budgetary planning process, which highlights the organization's commitment to fiscal integrity and sound financial management, is the town's financial policies. These policies relate primarily to capital planning and debt management, and provide annual budget guidelines covering operating revenues and expenditures. Included in the policies are strategies which support the adoption of an annual balanced budget; require recurring costs to be supported by recurring revenues; limit combined outstanding and proposed debt such that the total is no greater than the town's maximum debt capacities; and retain the town's coveted AAA bond credit rating. The policies also address minimum General Fund unassigned fund balance requirements. A new financial policy adopted in the prior fiscal year was the creation of a revenue stabilization fund and guidelines for deposits to and withdrawals from the fund. The town's financial policies are reaffirmed annually by the Town Council as part of the town's budget adoption process.

Budgetary and Accounting Controls

The Town Manager is required by the *Code of Virginia* to prepare and present to the Town Council a proposed budget no later than April 1 of each year. The Town Council is required to adopt a budget prior to July 1 and shall fix a tax rate for the budget year at that time.

A brief synopsis of the budget as proposed by the Town Manager is published at least once in a newspaper with general circulation within the town. The public hearing provides citizens of the town an opportunity to comment on the recommended budget. After the Town Council approves the annual budget, the Town Manager has the authority to approve the intra and inter departmental transfer of funds up to \$30,000. Transfer amounts in excess of \$30,000 as well as any addition, deletion or transfer of reserved funds can only be accomplished with the approval of the Town Council.

Budgetary control is maintained at the department level with all departments having on-line access to expenditure account information. Additionally, departments are provided periodic updates of comprehensive financial data for each activity center within the department. These reports display approved budget amounts, detailed item-by-item expenditure and encumbrance transactions, transfers, and remaining budget balances.

Additional budget control is maintained within the town's purchasing system. Prior to the release of a purchase order to a vendor, funds must be encumbered. If the dollar amount of a purchase order request exceeds the allotment balance, the purchase order is not released until a proper transfer of funds has been approved and executed.

Written reports are presented to the Town Council throughout the year to keep them apprised of the town's financial activities. Included in the reports are narrative explanations of emerging trends for all major sources of revenues and expenditures.

OTHER INFORMATION

Independent Audit

The town requires that an annual independent audit be conducted on its financial statements by a certified public accountant selected through a competitive procurement process. For the year ended June 30, 2014, the firm of PBMares, LLP was retained to perform this service. PBMares' reports on the financial statements and compliance matters are located in sections two and four of this report.

Awards and Designations

Tree City USA

The Community Forest Division of the Department of Community Development received a Tree City USA award from the National Arbor Day Foundation. This is the twenty-fifth consecutive year the town has achieved this award, confirming the town's commitment to its tree canopy and environmental stewardship.

Golf Course

By continuing its tradition of providing high quality playing conditions and delivering premium value for the dollar, the golf course remains a *Golf Digest* "Place to Play" and is currently recognized with a three-star rating. During the fiscal year, the course was awarded a Virginia Trees for Clean Water grant by the Virginia Department of Forestry. The grant provides 50 percent matching funds for planting trees in select riparian buffer zones for water quality improvements in the Chesapeake Bay.

Parks and Recreation

The department of Parks and Recreation received several awards during fiscal year 2014, many of which were related to the 2013 Herndon Festival. The Washington Family Magazine survey identified the Herndon Festival as one of the area's best festivals or celebrations for families. The Virginia Recreation and Park Society recognized the Herndon Festival mobile website as well as the department's summer camp brochure for awards. And, the International Festivals and Events Association recognized the Herndon Festival's mobile app and sponsor gifts as award-worthy.

Human Resources and Risk Management

Fiscal year 2014 was the sixth consecutive year the town successfully satisfied 100 percent of the Virginia Municipal League Insurance Programs (VMLIP) risk management guidelines. This achievement reflects the town's continuing efforts to ensure the safety of town citizen and employees.

Public Safety

The Herndon Police Department was the first place winner in the state-wide Virginia Law Enforcement Challenge program. In addition, Herndon achieved recertified with the national Commission on Accreditation for Law Enforcement Agencies (CALEA).

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Herndon, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the thirty-ninth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation Award

GFOA has also awarded the town with the prestigious Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2013. This is the twenty-third consecutive year the town has achieved this honor. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. In July 2014, the town's budget documents for the fiscal year beginning July 1, 2014 were submitted to GFOA for consideration of another Distinguished Budget Presentation Award.

ACKNOWLEDGEMENTS

The Town of Herndon has established and continues to maintain a stable financial position through strong, progressive management of financial operations combined with sound accounting and financial reporting practices. Appreciation is expressed to the Mayor and the members of the Town Council for their support and guidance and for the responsible manner in which they exercise their financial stewardship of the town.

This report could not have been prepared without the dedication of the entire staff of the Department of Finance. We wish to express our appreciation to all who assisted in its preparation and to commend them for the professionalism they displayed throughout the year.

Finally, we would also like to express our appreciation to the town's independent auditing firm, PBMares, LLP, for their cooperation and assistance in these efforts. We also wish to acknowledge PBMares' timely guidance which assures the town's financial management and accounting is in compliance with GASB statements and other governmental accounting standards.

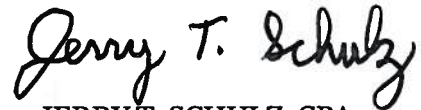
Respectfully submitted,



ARTHUR A. ANSELENE
Town Manager



MARY K. TUOHY, CPA
Director of Finance



JERRY T. SCHULZ, CPA
Deputy Director of Finance



www.herndon-va.gov

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of Council
Town of Herndon, Virginia
Herndon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the town, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the town restated net position in the Proprietary Funds, the Business-Type Activities and Governmental Activities to write-off bond issue costs in accordance with GASB Statement No. 65.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 7-27 and 91, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financials. The accompanying schedules listed in the table of contents as supplementary information, supplemental schedules, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, supplementary information, and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, supplementary information, and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the town's internal control over financial reporting and compliance.

CPB Mares, LLP

Harrisonburg, Virginia
November 21, 2014

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Herndon, Virginia's (town) financial statements provides an overview of the town's financial performance for the fiscal year ended June 30, 2014. Users of these financial statements are encouraged to consider the information presented here in conjunction with the town's basic financial statements and the information furnished in the transmittal letter found on page i of this report.

Financial Highlights

- The assets of the town exceeded its liabilities and deferred inflow of resources at the close of the fiscal year by \$115.3 million (*total net position*). Of this amount, \$30.8 million (*unrestricted*) may be used to meet the town's ongoing obligations to citizens and creditors.
- The town's total net position increased during the fiscal year by approximately \$1.5 million. The increase occurred mostly within the business-type activities and is related to the \$1.9 million received from the sale of the town's property at the corner of Vine Street and Center Street. The sales proceeds were recorded as an "other financing" source in the General Fund and then transferred out to the Downtown Parking Fund, a business-type activity.
- The net position for governmental activities declined by \$550,000 due to several factors. These include increases in functional area operating costs and the transfer out of the sales proceeds from the Vine Street/Center Street property to the Downtown Parking Fund. Though several key revenue sources such as general property taxes, other local taxes, interest earnings and rental income fared quite well during the fiscal year, they were not sufficient to fund total governmental expenses. Also declining was the net investment in capital assets due mainly to the effects of annual depreciation expenses and the sale of the town's land.
- Total capital assets (exclusive of depreciation and amortization) increased by \$1.8 million with the continuation or completion of several major capital projects, such as:
 - Constructing the first phase of the Station Street capital project which included installing conduit, duct bank, and other appurtenances in preparation for undergrounding the overhead utilities;
 - Installing lighting along the W&D Trail with the first phase of this multi-year project centered in the downtown area from Van Buren Street to Ferndale Avenue;
 - Undertaking engineering and final design for several street projects such as the Herndon Parkway intersections at Sterling Road and Van Buren Street and the intersection improvements at Park Avenue and Monroe Street;
 - Replacing the playground equipment at Bready Park which included complete demolition and removal of the old equipment;
 - Replacing the HVAC units at Town Hall for all three floors and installing restroom ventilation and automated HVAC controls;

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Constructing the water line replacement projects along Locust, Pine and Station Streets. Engineering and design work for water line improvements at Center, Monroe and Vine Streets was also initiated during the fiscal year;
- Initiating construction of the retrofits to the Herndon Centennial Golf Course's stormwater pond, a project funded by Fairfax County Stormwater Service District Tax collections.

These projects as well as equipment and vehicle purchases, and certain information technology enhancements were added to the town's capital asset inventory.

- As of the close of the current fiscal year, the town's governmental funds reported combined ending fund balances of \$20.3 million, an increase of \$827,000 over the previous fiscal year. The increase is related to a significant (13 percent) increase in the General Fund fund balance, offset by fund balance declines in capital projects and other governmental funds. Approximately 40 percent of the total governmental funds fund balance, which is \$8.2 million, is *available for spending* at the town's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, the unassigned portion of fund balance for the General Fund was slightly more than 26 percent of total General Fund expenditures, excluding transfers out from the fund.
- During the fiscal year, the town made its scheduled debt service payments which decreased the town's total bonded debt by \$1.7 million. The town's outstanding principal balance for total bonded debt was \$16.8 million at June 30, 2014.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the town's basic financial statements. These basic financial statements consist of two different types, each of which presents a different view of the town's finances. The government-wide financial statements provide both long-term and short-term information about the town's overall financial condition. The fund financial statements focus on the operation of the individual funds that make up the town's government. The basic format used to display fund statement information is more detailed than the government-wide statements. The third component of the town's basic financial statements is the notes, which appear after the fund statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the town's finances, in a manner similar to private sector financial reporting. The first government-wide statement - the Statement of Net Position - presents information on all of the town's assets, liabilities and deferred inflows of resources, with the difference between the three reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the town is improving or declining. In addition, nonfinancial factors, such as a change in the town's real estate assessment values or the condition of the town's facilities and infrastructure, should be considered in assessing the overall financial health of the town.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The second statement - the Statement of Activities - presents information showing how the town's net position changed during the most recently concluded fiscal year. Changes in net position are captured and reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is actually received or paid. Thus, certain revenues and expenses are reported in this statement for items that will result in cash flows for future periods (e.g., uncollected taxes and earned, but unused, employee annual leave).

Both government-wide financial statements segregate functions of the town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a substantial portion of their expenses through user fees and charges (business-type activities). The government-wide financial statements are segregated as follows:

Governmental Activities - Many of the activities, programs and services traditionally identified with government are reported here. These activities and services are Legislative, Administration, Town Attorney, Parks and Recreation, Finance, Community Development, Police and Public Works. These activities are financed primarily through property taxes, other local taxes, charges for services, and intergovernmental revenues (federal, state and local grants).

Business-type Activities - The town has four business-type activities, which are the Water and Sewer Fund (provides customers with water distribution and sewer conveyance); the Golf Course Fund (provides customers with recreational golfing opportunities); the Chestnut Grove Cemetery Fund (operates and manages the Chestnut Grove Cemetery); and the Downtown Parking Fund (operates and manages the town's Downtown Public Shared Parking program). These funds charge a variety of user fees which are dedicated to support a majority, if not all, of fund expenses.

Fund Financial Statements

The fund financial statements provide more detailed information about the town's more significant funds. A "fund" is a grouping of related accounts that is used to maintain control over resources, which have been segregated for specific activities or purposes. The town, 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 town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Most of the town's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out; and (2) the balances remaining at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that assists financial statement users in determining whether there are more or fewer financial resources available in the near future to finance the town's programs and services.

Proprietary funds – These funds are used to account for the operation of services and activities that are financed in a manner similar to private business enterprises. Thus, costs generated by providing the activity or service are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both a short-term and long-term financial view. The town uses *enterprise funds* (one type of proprietary fund) to account for the activities of the Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund and Downtown Parking Fund.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary fund – A fiduciary fund is used to account for resources (e.g., assets) held for the benefit of a party outside of town government. The town is responsible for ensuring the assets reported in the fund are used for their intended purpose. The town's fiduciary activities are reported in a separate statement of fiduciary net assets. The town excludes these activities from the town government-wide financial statements because the town cannot use these assets to finance its programs.

Notes to the 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. The notes to the financial statements are located in the third section of this report and titled "Notes to Financial Statements."

Financial Analysis of the Town as a Whole

Table 1 below presents a Summary Statement of Net Position for fiscal year 2014 in comparison to the previous fiscal year:

TABLE 1
Summary Statement of Net Position
June 30, 2014 and 2013
(in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 31,843	\$ 29,696	\$ 20,252	\$ 17,995	\$ 52,095	\$ 47,691
Capital assets, net	81,010	83,374	17,157	17,239	98,167	100,613
Total assets	112,853	113,070	37,409	35,234	150,262	148,304
Current and other liabilities	6,339	10,188	2,014	1,778	8,353	11,966
Non-current liabilities	17,994	19,179	3,239	3,400	21,233	22,579
Total liabilities	24,333	29,367	5,253	5,178	29,586	34,545
Unavailable revenue - property taxes	5,367	-	-	-	5,367	-
Deferred inflows of resources	5,367	-	-	-	5,367	-
Net Position:						
Net investment in capital assets	66,965	67,774	14,409	14,278	81,374	82,052
Restricted	3,156	3,156	-	-	3,156	3,156
Unrestricted	13,032	12,773	17,747	15,778	30,779	28,551
Total net position	\$ 83,153	\$ 83,703	\$ 32,156	\$ 30,056	\$ 115,309	\$ 113,759

Presented below is a comparative analysis of the government-wide information.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position:

Net position may serve over time as a useful indicator of the town's financial health. For the most recently concluded fiscal year, the town's assets exceeded its liabilities and deferred inflows of resources by \$115.3 million. About 27 percent of the town's net position is unrestricted and available to meet the town's ongoing obligations to citizens and creditors. The larger net position subcomponent, labeled "Net investment in capital assets," reflects the town's investment in capital assets (e.g., land, infrastructure, buildings, improvements, machinery and equipment, intangible assets and construction in progress), net of accumulated depreciation and amortization and outstanding debt associated with acquisitions.

The town uses its capital assets in providing services to its citizens; consequently, these assets are not readily available for future spending. Although the town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets would not likely be used to liquidate these liabilities.

The net position for governmental activities declined by \$550,000 due to several factors. These included increases in operating costs for such functional areas as government administration, police and public works in comparison to the previous fiscal year, coupled with the transfer out of the sales proceeds from the Vine Street/Center Street property to the Downtown Parking Fund. This property was sold in March 2014 to a private developer who is currently constructing the Vinehaven subdivision. When completed, this residential subdivision will contain seventeen single-family detached homes.

Though several key revenue sources such as general property taxes, other local taxes, interest earnings and rental income fared quite well during the fiscal year, they were not sufficient to fund total governmental expenses. Also declining was the net investment in capital assets due mainly to the effects of annual depreciation expenses and the sale of the town's land.

In addition, a recently adopted Government Accounting Board Statement (Statement No. 65) required the town to restate its beginning net position as of June 30, 2013 for governmental and business-type activities. The restatement required the write-off of unamortized bond closing costs associated with earlier bond issues. The write-off accounts for \$209,000 of the decline for governmental activities and a \$60,000 decline for business-type activities.

Total net position reported in connection with the town's business-type activities increased overall by \$2.1 million. The increase is tied to fiscal year-end net increases reported for the Golf Course Fund and Chestnut Grove Cemetery Fund which were \$63,000 and \$116,000 respectively. The largest increase in net position occurred in the Downtown Parking Fund which enjoyed an increase of \$2.2 million due to the governmental transfer described above. This transfer in, as well as the town's annual \$200,000 transfer in, is dedicated as "seed money" toward the future construction of a parking garage in the downtown. Further analysis concerning the nature of these increases and decreases is discussed on the next page under "Business-type Activities."

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities:

Governmental Activities

Revenues: For the fiscal year ended June 30, 2014 revenue from governmental activities totaled \$36.3 million. Sources of revenue for fiscal year 2014 are comprised of many different types with taxes (both general property and other local taxes) constituting the largest source of town revenues.

As of January 1, 2013, the assessed value of real property within the town increased 3.7 percent over the prior year. The recent assessments reaffirm that residential real estate is continuing to recapture some of the value lost during the three years immediately preceding January 1, 2011. With the increase in assessments, the town's general property tax collections increased \$329,000 over the prior fiscal year.

Though general property taxes constitute the single largest tax source to the town, the town also assesses other local taxes and fees that are primarily consumer-related. These other local revenue sources are consumer utility tax, bank stock tax, cigarette tax, business license (BPOL) fees, transient occupancy (hotel/motel) tax, meals tax and the town's share of the local sales tax. Of the taxes just mentioned, the latter four are considered major local tax sources for the town.

Remittances attributed to the town's major local tax sources enjoyed an overall increase of about three percent in comparison to the prior fiscal year. A majority of the increase is tied to significant business license tax collections which surpassed the prior fiscal year's collections by six percent. It's important to note that these taxes are based on the prior calendar year's business gross receipts and may not reflect more recent economic activities, such as the continued impact of federal sequestration. In this regard, the town's current fiscal year transient lodging tax collections were a better indicator of the effects of federal sequestration, with collections remaining at essentially the same level as the prior fiscal year. Transient lodging tax collections for both fiscal years are about seven percent below amounts collected during each of the preceding three fiscal years.

In addition to general and other local taxes, the town received capital grants and contributions totaling \$1.6 million. Major grant-related capital projects undertaken this fiscal year included construction of conduits for undergrounding overhead utilities as part of the Station Street improvements project; continued engineering and concept studies of two major street intersections along the Herndon Parkway; and purchasing an alternative-fuel (hybrid) dump truck. Also included in capital grants and contributions are a portion of the town's annual state allocation for highway maintenance.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses: Expenses for governmental activities, including interest on debt service, totaled \$34.7 million which is a three percent increase over the prior fiscal year. The increase in expenses occurred mostly within general government administration and is tied to the value (or cost basis) of the town's land sold to create the Vinehaven residential subdivision. Other cost increases were anticipated as part of the town's adopted budget for fiscal year 2014. These included a market rate adjustment (MRA) effective July 1; a reinstatement of a modest pay-for-performance program and a small merit percent increase for sworn police personnel. Also, premium costs for employer-provided benefits, such as life insurance, health care, and the employer-portion of contributions to the Virginia Retirement System (VRS) added to the overall increase in expenses.

As indicated in Table 2, the town's three largest and highest priority programs (other than general government administration which actually represents four functional areas) are police, public works and parks and recreation. These three programs, when taken together, comprise 74 percent of total governmental expenses.

Business-type Activities

The town has four business-type activities, which are segregated and accounted for as enterprise funds. During the current fiscal year, business-type activities increased the town's net position by \$2.1 million. The following narrative highlights the financial activities of the town's enterprise funds.

Water and Sewer Fund: Total operating and nonoperating revenues amounted to \$7,352,000, with water and sewer availability fees and interest earnings (a combined \$886,000) accounting for approximately 12 percent of total revenues. Total user charges assessed for water sales and sewer services during the fiscal year, at \$5,924,000, were virtually the same as the previous fiscal year.

Operating expenses of the fund, which totaled \$7,589,000, included wholesale sewer conveyance charges of \$3.8 million, wholesale water purchases of \$1.8 million as well as \$148,000 in installment payments toward the purchase of an additional 1.0 million gallons per day (MGD) of water capacity from Fairfax Water. The fund's net position declined during the fiscal year by \$237,000.

Golf Course Fund: Total operating revenues amounted to \$1,428,000, which is a slight decrease of about two percent over the previous fiscal year. Revenues earned correspond to the total number of golf rounds played (at 31,400) which also declined in comparison to the previous fiscal year. Over the past several years, fee refinements (such as resident weekday passes, sunset rates, single occupancy cart rates and discounted off-season rates) and the use of third-party resellers have been moderately successful in attracting new customers while retaining existing patrons. In addition to competitive rates and emphasis on excellent customer service, the course has actively marketed to a variety of associations and tournament events. Also augmenting the golf course revenues are sales of high quality merchandise within an attractive pro shop setting. All these have proven to be key elements of the course's long-standing success.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses of the fund, which totaled \$1,513,000, included personnel costs, turf maintenance and other operating supplies, depreciation and amortization costs and other miscellaneous expenses. Throughout the fiscal year, on-going efforts were made to contain expenses without compromising levels of service. In addition, construction activities for renovating the course's stormwater pond commenced during the fiscal year and were funded through Fairfax County's Stormwater Service District Tax collections. Construction of the retrofits is expected to be completed in early fiscal year 2015. With the concerted cost saving measures and capital contributions, the fund's net position increased \$63,000 at fiscal year end.

Chestnut Grove Cemetery Fund: Total operating revenues amounted to \$841,000 and represent an increase of 15 percent over the previous fiscal year. Most of the increase is attributed to the sale of cemetery sites and memorials with total receipts about 26 percent above the previous fiscal year. During the fiscal year, the cemetery sold 184 rights of interment (including cremation sites), and performed 129 burials.

Operating expenses of the fund amounted to \$622,000 and included depreciation and amortization expenses attributed to the administration and maintenance buildings. Nonoperating expenses included \$86,000 in bond interest costs. At the conclusion of the fiscal year, the fund's net position increased significantly by \$116,000.

Downtown Parking Fund: Total operating and nonoperating revenues amounted to \$54,000 and consisted of annual parking maintenance fees; partial recovery of a previously written-off promissory note; interest earnings on outstanding public shared parking promissory notes and a gain on the sale of a portion of the Station Street parking lot right-of-way to an adjoining property owner. Operating expenses of the fund totaled \$33,000 and included depreciation and amortization expenses of \$4,500. The fund also received a combined \$2.1 million in transfers in from the General Fund. The amount was composed of the town's annual \$200,000 transfer in which was set aside as "seed money" for the future construction of a parking garage in the downtown. In addition, Town Council authorized the transfer in of the \$1.9 million proceeds from the sale of the town's Vine Street/ Center Street property. This additional transfer in was also set aside to fund the future parking garage. At the conclusion of the fiscal year, the fund's net position increased by \$2.2 million.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes the changes in net position for the town for the fiscal years ended June 30, 2014 and 2013:

TABLE 2
Summary of Changes in Net Position
Fiscal Years Ended June 30, 2014 and 2013
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,447	\$ 4,544	\$ 8,180	\$ 8,096	\$ 12,627	\$ 12,640
Operating grants and contributions	1,744	1,649	438	278	2,182	1,927
Capital grants and contributions	1,610	1,882	154	180	1,764	2,062
Total program revenues	7,801	8,075	8,772	8,554	16,573	16,629
General revenues:						
General property taxes	10,483	10,154	-	-	10,483	10,154
Other local taxes	12,851	12,442	-	-	12,851	12,442
Use of money and property	1,111	452	487	81	1,598	533
Intergovernmental non-categorical aid	1,938	1,958	-	-	1,938	1,958
Miscellaneous	2,069	268	615	579	2,684	847
Total general revenues	28,452	25,274	1,102	660	29,554	25,934
Total revenues	36,253	33,349	9,874	9,214	46,127	42,563
Expenses:						
General government administration	6,531	5,262	-	-	6,531	5,262
Parks and recreation	4,660	4,608	-	-	4,660	4,608
Community development	1,980	2,127	-	-	1,980	2,127
Police	9,548	9,466	-	-	9,548	9,466
Public works	11,531	11,489	-	-	11,531	11,489
Interest	443	742	-	-	443	742
Water and sewer	-	-	7,589	7,065	7,589	7,065
Golf course	-	-	1,554	1,619	1,554	1,619
Chestnut Grove cemetery	-	-	708	766	708	766
Downtown parking	-	-	33	29	33	29
Total expenses	34,693	33,694	9,884	9,479	44,577	43,173
Change in net position before transfers	1,560	(345)	(10)	(265)	1,550	(610)
Transfers	(2,110)	(176)	2,110	176	-	-
Change in net position	(550)	(521)	2,100	(89)	1,550	(610)
Net position, July 1, as restated	83,703	84,224	30,056	30,145	113,759	114,369
Net position, June 30	\$ 83,153	\$ 83,703	\$ 32,156	\$ 30,056	\$ 115,309	\$ 113,759

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds - The General Fund is the major governmental fund of the town. The town's other governmental funds are the Capital Projects Fund, which accounts for all transactions related to general town construction projects (with the exception of construction related to the enterprise funds) and two non-major governmental funds. The non-major governmental funds are the Information Systems Improvement Fund (which accounts for the acquisition and installation of automated equipment, telecommunications and other information systems improvements) and the Chestnut Grove Cemetery Perpetual Care Fund (which accounts for the accumulation of resources to be used for the perpetual care and maintenance of the Chestnut Grove Cemetery).

Governmental fund balance portions are allocated into five categories. These categories are "nonspendable", meaning the amounts are not in a spendable form, such as inventories; "restricted", meaning externally imposed restrictions or enabling legislation exist on the amounts reported; "committed", meaning internally imposed restrictions authorized by the government's highest level of decision-making authority exist on the amounts reported; "assigned", meaning the government intends to use the amounts reported for a specific purpose; and "unassigned", meaning the amounts reported have not been assigned to other funds nor have they been restricted, committed, or assigned to a specific purpose in the General Fund. At the end of the current fiscal year, the total General Fund fund balance was \$10.6 million with the unassigned portion totaling \$8.2 million. This amount represents 26 percent of the General Fund's total expenditures for fiscal year 2014.

The Capital Projects Fund's fund balance contained an assigned portion of \$8.1 million at fiscal year-end which represents assets dedicated to subsequent years' capital expenditures.

The fund balance of the town's General Fund increased by \$1.2 million during the fiscal year, which is significant since the final budgeted decline was projected at (\$1.9 million). Specific details concerning governmental financial activities are as follows:

Revenues:

- Based on the annual assessment as of January 1, 2013, the value of real property within the town increased three percent over the prior year and confirmed that real property assessments had continued to regain some of the values lost during the prior "Great Recession" years of 2008 through 2011. With the increase in assessments, the town's general property tax collections increased \$333,000 (or about three percent) over the prior fiscal year.
- All except two of the town's eleven other local tax sources enjoyed slight, moderate or (in some cases) significant increases over the previous fiscal year. The more noteworthy increases occurred in bank stock taxes, business license taxes, the town's share of local sales taxes, and meals taxes.
- Some local tax sources were either stagnant or declined in comparison to the previous fiscal year. These included right-of-way use fees, cigarette taxes, transient lodging taxes, utility consumption taxes, and motor vehicle licenses. Collections from permits, privilege fees and regulatory licenses also decreased significantly in comparison to the prior fiscal year.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Court fees remitted from Fairfax County increased about 22 percent over amounts collected during the previous fiscal year. As noted over the past several years, court fines are difficult to predict since the imposition of these fines is up to the discretion of the presiding judge. Some judges favor community service sentencing in lieu of monetary fines while others adhere to increased financial sanctions. In addition, recent state legislative changes in the way court fees are remitted to localities may have had a positive impact on the timing of the receipts.
- Various short-term and medium-term investment instruments assigned to the governmental funds garnered \$583,000 in interest earnings during the fiscal year. Of this amount, about \$80,000 was due to the application of Governmental Accounting Standards Board (GASB) Statement Number 31 and its "mark to market" requirements. Interest rates on the town's investment vehicles had a weighted average of about three percent. Revenue from interest on investments is highly dependent on Federal Reserve actions which, in turn, influence interest rates across the entire spectrum.
- Intergovernmental revenues, which totaled \$5,338,000, included grant reimbursements from Fairfax County totaling \$234,000 for the town's share of operational funding under the Fairfax County Stormwater Service District Tax and contributions toward the town's tourism and economic development initiatives. Under state aid, the town received payments for police reimbursement, a pro-rata share of the state's communication sales and use tax, Internet Crimes Against Children grant managed by the Department of Criminal Justice Services, street and highway maintenance funding, a pro-rata share of the state's fire fund monies, litter control grant and vehicle rental taxes. Also reimbursed were certain VDOT revenue sharing capital projects such as the Station Street Improvements project.
- Federal grant receipts included reimbursements for various selective enforcement and other police grants under the federal Department of Justice and Department of Transportation; purchase of an alternative fuel dump truck; and reimbursement of salary and benefits costs of the town's housing specialist under a US Department of Housing and Urban Development community development block grant administered by Fairfax County. Also reimbursed were costs associated with two Herndon Parkway intersection studies. In addition, the police department used about \$90,000 in previously received federal asset forfeiture monies. These funds were used for additional staff training and development of the town's police officers and for enhancements to the station's fitness room and equipment.

Expenditures:

Personnel cost increases were anticipated as part of the town's adopted budget for fiscal year 2014. These included a market rate adjustment (MRA) of three-fourth of one percent (0.75%) effective July 1 for all regular status employees and a reinstatement of a modest pay-for-performance program with an average performance increase of two percent. The budget also included a small merit percent increase (1.5%) for eligible sworn police personnel. In addition, premium costs for employer-provided benefits, such as life insurance, health care, and the employer-portion of contributions to the Virginia Retirement System (VRS) added to the overall increase in expenses.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Among the recommendations of an economic development task force created by town Council was the hiring of a full-time professional dedicated to serving the needs and interests of the business community. In fiscal year 2014 the town's first economic development manager was hired and began working on a number of initiatives. Staff continued to work with the town's marketing consultant on the new DineONHerndon.com website which provides information on the town's many restaurants. As in the prior fiscal year, a variety of channels were accessed for advertising and promoting the town such as WTOP Radio, Fairfax Connector busses and other promotional avenues. Expenditures for these initiatives, which included the salary and employer-provided benefits for the new economic development manager, totaled about \$213,000.
- Parks and recreation costs for the current fiscal year included staffing and operating costs associated with the Community Center operations. During the fiscal year, further refinements were made to the new registration and reservation software package which was launched last fiscal year. Also incurred were costs to continue the phased replacement of aging recreational equipment.
- Department of Community Development expenditures were about eight percent less than the prior fiscal year due, in part, to two full-time position vacancies which remained vacant throughout most of the year. The department continued working on the town's two major planning initiatives which are preparation for the arrival of Metrorail's Silver Line to the south of town and downtown redevelopment.
- Police department expenditures for the fiscal year included acquiring needed replacement police cruisers and other public safety equipment and supplies. In addition, all sworn police personnel were eligible to receive a 1.5 percent merit increase effective on their individual anniversary dates. All town personnel, including sworn police, also received a three-fourth of one percent (0.75%) market rate adjustment (MRA) pay increase effective July 1, 2013.
- Costs in the Department of Public Works are related to the management and maintenance of town streets, sidewalks, storm drainage, grounds, buildings, vehicles and equipment, park lands and other town-owned or town-managed facilities. During the fiscal year, town engineering and program management staff oversaw nine ongoing private developer projects for proper compliance with site plan regulations and managed 18 town capital improvement projects, several of which are discussed in greater detail under the Capital Assets section of this report. Also performed were several major building maintenance activities including upgrades to the Herndon Town Council Chambers HVAC control units; replacing the HVAC units at Town Hall and performing major maintenance and repair activities at the Community Center during the Center's annual shut-down for the last two weeks of August. Repaving activities undertaken during the fiscal year included Dranesville Road, a section of the Herndon Parkway (from Dranesville Road to Crestview Drive), Pine Street, Station Street and certain sections of several residential streets such as Fillmore Street, Longview Court, Ashburn Street, and Woodshire Lane. Also included were costs for repair, maintenance and fuel for the town's fleet of vehicles and equipment.
- Total debt service payments for the current fiscal year were \$22,000 less than the previous fiscal year primarily due to reduced interest payments.
- During the fiscal year, the town incurred \$2.2 million in expenditures for several major capital projects and information systems improvements. A detailed discussion of the more significant projects can be found in the Capital Assets section discussed later.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds - The town's enterprise funds, which are a type of proprietary fund, provide the same type of information found in the government-wide financial statements, but in greater detail. At June 30, 2014 the unrestricted net position for each of the four enterprise funds were as follows:

- Water and Sewer Fund with an amount of \$13,423,000
- Golf Course Fund with an amount of \$784,000
- Chestnut Grove Cemetery Fund with an amount of \$349,000
- Downtown Parking Fund with an amount of \$3,191,000

GENERAL FUND BUDGETARY HIGHLIGHTS

In developing the town's fiscal year 2014 budget and CIP program, the 2030 Vision Plan adopted by the town council in December 2010 (along with the individual goals and objectives contained in the Plan) provided staff with overall guidance. Goals and objectives specific to the development and execution of the fiscal year 2014 budget were:

- Maintain the town's real estate tax, meals tax and all other local taxes at their current rates.
- Continue to allocate resources to strategic capital projects such as major road improvements, downtown redevelopment and planning for Metrorail's Silver Line.
- Implement economic development strategies to enhance the town's economic base, including the branding initiative, and hire an economic development manager to serve the needs and interests of the town's business community.
- Continue to allocate \$750,000 of the town's meal tax collections to support downtown utility relocation, major road repaving, future funding of a downtown parking garage, and targeted promotion of the town's restaurant industry.
- Continue to advance traffic management and neighborhood improvement projects.
- Provide funding for an employee compensation program.

The total original adopted fiscal year 2014 budget, including inter-fund transfers, was \$32,548,200 which is about three-fourth of one percent (0.75%) more than the original budget for fiscal year 2013. Most of the increase is related to personnel costs which included a market rate adjustment (MRA) to pay effective July 1, a reinstatement of a modest pay-for-performance program and a small merit percent increase for sworn police personnel. Also, premium costs for employer-provided benefits, such as life insurance, health care, and the employer-portion of contributions to the Virginia Retirement System (VRS) added to the overall increase in expenses.

The real estate assessment at January 1, 2013 (residential and commercial combined) was approximately \$3.873 billion which was an increase of 3.7 percent over the assessments at January 1, 2012. All of the increase in assessed values was tied to the residential property sector.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

In contrast, projected revenues attributed to consumer-related sources, such as business license fees, transient lodging taxes and meals taxes assumed a budgeted decline of three percent over the prior year's budget, due to the anticipated negative impacts of federal sequestration.

At the conclusion of the fiscal year, actual revenues were \$2 million (or about six percent) more than final budgeted amounts. Much of this variance is related to substantial collection increases in other local taxes (principally business license fees), permits and privilege fees, use of money and property, and intergovernmental revenues. Actual revenues attributed to the use of money and property (which is interest earnings and rental income) were \$189,000 (or about 28 percent) more than projected due, in part, to the application of GASB 31 and its positive effect on interest income. In addition, the town's rental space at 397 Herndon Parkway was fully occupied as of August 2013 which contributed eleven months of rental income at full occupancy.

Revenues:

- Real property assessment values as of January 1, 2013 increased overall by 3.7 percent above assessments for the previous year, with the residential sector of the tax base experiencing an overall assessment growth of ten percent, followed by the commercial sector which declined by two percent. The town's real estate tax rate remained at \$0.2650 per \$100 of assessed value.
- Actual real estate tax collections were about \$54,000 less than projected due to property assessment exonerations generated by Fairfax County during the fiscal year and the value of tax relief granted to qualified elderly and disabled residents. Real property assessments of land and buildings within the county and its towns, as well as subsequent supplements and exonerations, are conducted by the county's Division of Real Estate Assessment. These assessments, supplements and exonerations are used by the town to levy the town's own real estate taxes.
- Remittances attributed to all of the town's four major local taxes enjoyed an overall increase of 14 percent in comparison to the original budget. A majority of the increase is tied to significant business license tax collections which surpassed the fiscal year's budget by 26 percent. However, the impacts of federal sequestration continued to have a significant negative effect on transient lodging tax collections. Though this fiscal year's collections exceeded the budget projection by a small margin, the collections are still about seven percent below amounts received during fiscal year 2013. Combined collections from other local tax sources for fiscal year 2014 were 12 percent (or about \$1,356,000) above the budgeted amount for the fiscal year.
- Actual revenues from permits, privilege fees and regulatory licenses also exceeded budgeted amounts by \$230,000 or 76 percent over the estimate. The current fiscal year saw reinvigorated developer and construction activities with the continued development of the Monroe Hill residential subdivision and several tenant build-out projects initiated in the Worldgate commercial area.
- Interest earnings and rental payments together were 28 percent above budget projections due, in part, to the application of GASB 31 and its positive effect on interest income. The town's commercial property at 397 Herndon Parkway became fully leased as of August 2013 and contributed \$528,000 in rental payments to the town. The town had budgeted \$506,000 from this revenue source.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Actual revenue from charges for services was about one-half of one percent (or \$21,000) less than budgeted amounts. The modest decline is mainly attributed to decreases in recreation program charges and admission fees. These were offset to a large extent by increases in Herndon Festival revenues, parks and recreation rental income and fees from the indoor-tennis/ multi-use facility.
- Overall, total actual intergovernmental revenues were about six percent (or \$268,000) above projected amounts. A substantial portion of the increase is related to greater than anticipated receipts under the state's Internet Crimes Against Children (ICAC) grant, a federal grant reimbursement under the Congestion Mitigation and Air Quality Improvement (CMAQ) for the purchase of an alternative fuel dump truck and use of federal asset forfeiture funds for police purchases. Both of the latter two grants were not included as part of the town's fiscal year 2014 budget.

Expenditures:

A large variance of \$1.5 million between actual expenditures (excluding transfers out) and the final budget was due to several circumstances. Comparing the final budget to actual expenditures reveals the following highlights:

- Expenditure amounts for all operating departments (with the exception of grants) were less than the final budgets due to less than anticipated operating costs in such areas as economic development, outside attorney services, professional planning services and delayed acquisition of vehicles and other capital equipment, particularly in public works. Funding for many of these budgeted items was subsequently carried-over and incorporated into the fiscal year 2015 budget. Also favorably impacting the budget were employee vacancy savings throughout the fiscal year, much of which was attributed to vacant community development, police and public works positions. In addition, the original budget was increased by \$1,224,000 through the first budget amendment enacted in July 2013. This budget amendment established the fiscal year 2014 carry-over appropriations for outstanding purchase orders and authorized reserves as of June 30, 2013.
- There were no budgeted amounts for such grant expenditures as federal pass-through grants administered by the State police, DMV and the Department of Justice grant for police gang task force activities.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

The town's investment in capital assets at June 30, 2014, which amounted to approximately \$98 million (net of accumulated depreciation and amortization), is summarized in Table 3. For comparative purposes, amounts from the previous fiscal year are also displayed.

TABLE 3
Summary of Capital Assets
June 30, 2014 and 2013
(in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Capital assets, not being depreciated or amortized:						
Land and easements	\$ 24,612	\$ 25,875	\$ 3,418	\$ 3,418	\$ 28,030	\$ 29,293
Construction in progress	1,609	570	819	286	2,428	856
Total capital assets, not being depreciated or amortized	26,221	26,445	4,237	3,704	30,458	30,149
Capital assets, being depreciated or amortized:						
Infrastructure	78,590	78,511	-	-	78,590	78,511
Buildings	40,800	40,462	3,579	3,580	44,379	44,042
Improvements other than buildings	10,342	10,285	29,617	29,264	39,959	39,549
Machinery and equipment	10,496	9,922	2,575	2,601	13,071	12,523
Furniture and fixtures	1,875	1,751	208	207	2,083	1,958
Intangibles	1,281	1,281	268	268	1,549	1,549
Total capital assets, being depreciated or amortized	143,384	142,212	36,247	35,920	179,631	178,132
Less total accumulated depreciation and amortization	(88,595)	(85,283)	(23,327)	(22,385)	(111,922)	(107,668)
Total capital assets being depreciated and amortized, net	54,788	56,929	12,921	13,535	67,709	70,464
Capital assets, net	\$ 81,010	\$ 83,374	\$ 17,157	\$ 17,239	\$98,167	\$100,613

During the fiscal year, the town incurred expenditures for several major capital projects and information systems improvements. Expenditures involving conceptual studies and initial design plans will, in all likelihood, result in the construction of major facilities and street infrastructure during the next several years.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Major capital expenditures incurred during the fiscal year were for the following capital projects:

- Station Street Improvements: This multi-year capital project included acquisition of right-of-way easements and land purchases which were needed before construction could begin. Improvements to the street include the installation of curb and gutter, sidewalks, storm drains, undergrounding of overhead utility lines, and new water lines in various sections of Station Street from Pine Street to Park Avenue. Construction of the first phase of the undergrounding project was completed in December 2013. This included installation of conduit, duct bank, and other appurtenances from Pine Street to Park Avenue for undergrounding of the existing overhead utilities in preparation for the Station Street improvements. Actual road reconstruction will begin in fiscal year 2015.
- W&OD Trail Lighting: This project consists of lighting the W&OD Trail in the downtown area from Van Buren Street to Ferndale Avenue using acorn street light fixtures and poles. Design for the trail lighting was completed in August 2013, construction began in April 2014, and the project was completed in the first quarter of fiscal year 2015.
- Heavy Duty Trucks: The Public Works department purchased three heavy duty trucks during the fiscal year to replace older trucks that were at the end of their useful lives and retired. The Streets Division purchased a 2014 Freightliner hybrid dump truck and a 2012 John Deere rubber tire loader. The Refuse Division purchased a 2014 Volvo 25 cubic yard rear loading refuse packer.
- Town Hall HVAC System: Construction of the Town Hall HVAC replacement project was completed in November 2013. This project consisted of replacing HVAC units for all three floors, boiler replacement, restroom ventilation installation, and automated HVAC controls.
- Bready Park Playground Equipment: The playground was completely demolished, replaced, and reopened in late June 2014. The new design and equipment was heavily influenced by input from elementary-age students throughout the community, preschool teachers, parents and staff. The old equipment had surpassed its expected lifespan and was unable to be repaired.
- Information Systems Improvements: Included as an integral component of the town's information systems and telecommunications master plan is the systematic replacement of older information technology equipment on a lifecycle basis. During the fiscal year, six switches, two routers, telephone voice and voice mail systems at the Herndon Police Department reached the end of their useful life. Replacement of these systems is expected to be completed during the first quarter of fiscal year 2015. Because of an advantageous pricing program, the voice and voice mail systems serving the other town departments were replaced too.
- Waterline Main Replacement Projects: The water main replacement project on Pine and Station streets was completed in fiscal year 2014. Spring Street (between Elden and Locust streets) water main replacement began in late fiscal year 2014 and is scheduled to be completed in early fiscal year 2015. Designs for water main replacement projects on Center and Vine streets began in late fiscal year 2014 and construction is scheduled for fiscal year 2015. The water main located on Elden Street between Monroe and Center streets is in design for lining using trenchless technologies which will limit the impact on downtown traffic.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Sewer Main Relining Project: During the fiscal year, staff began the relining of the sewer main which traverses the Herndon Centennial Golf Course. This project is expected to be completed in early fiscal year 2015.
- Golf Course: During the fiscal year, engineering and design of the retrofits to the course's stormwater pond were completed. These retrofits will increase the pond volume and improve the treatment of stormwater runoff in the fallout area. Construction of the retrofit project during the year was funded using grant money obtained from Fairfax County. Construction is anticipated to be completed during the second quarter of fiscal year 2015.
- Other Critical Projects Progressing: During the fiscal year, significant design, right-of-way acquisition and utility relocation efforts have progressed on critical capital projects such as the intersection improvements at Park Avenue and Monroe Street, 397 Herndon Parkway roof replacement, Downtown Street improvements, Automated Water Meter Reading, and the Spring Knoll water tank repairs and repainting.
- Planning for Other Key Projects: Also during the fiscal year, funding was secured and preliminary planning initiated on several key capital projects such as vehicle and pedestrian access to the future Herndon Metrorail station, Herndon Parkway and Van Buren Street intersection improvements, and Van Buren Street complete street project.

Additional information concerning the town's capital assets can be found in Note 6 of the financial statements.

LONG-TERM DEBT

At June 30, 2014, the town's long-term liabilities, exclusive of compensated absences, other postemployment benefits, and amounts to be repaid within one year, totaled \$15,524,000. Of this amount, \$12,986,000 is a liability attributed to governmental activities with the remaining \$2,538,000 attributed to business-type activities. The Town's available legal debt margin, as permitted by the Commonwealth of Virginia, is \$372 million. The margin's computation is based on 10 percent of the assessed value of real estate subject to taxation less applicable bonded debt outstanding.

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the town's debt position. Data for the town at June 30, 2014 is as follows:

Estimated Population	Assessed Valuation of Taxable Real Property	Governmental Net Bonded Debt	Ratio of Debt to Assessed Valuation	Net Bonded Debt per Capita
23,592	\$ 3,864,014,741	\$14,045,713	.0036	\$ 595

In July 2012, Fitch Ratings, Inc. reaffirmed the town's credit rating of "AAA" and noted in particular the town's adherence to good debt management guidelines and low overall debt levels. The town also has ratings from Moody's Investors Service, Inc. (designed as "Aaa") and Standard & Poor's (designed as "AAA"). These credit ratings are one of the highest among towns in Virginia.

More detailed information concerning the town's long-term obligations is presented in Note 7 of the financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the town's adopted budget for fiscal year 2015:

- Based on the most recently completed annual reassessment, the assessed value of real property within the town was \$4,050,519,940 as of January 1, 2014. When compared to the total assessed values at January 1, 2013, this amount represents a combined five percent increase, with residential properties increasing about eight percent and commercial properties decreasing slightly less than one percent. These latest numbers confirm a return to earlier, higher assessment values, though these most recent values are still 12 percent below the ten-year high mark achieved in 2008. The town's real estate tax rate remains at \$0.265 per \$100 of assessed value.
- The town's meals tax rate increase, which became effective for fiscal year 2012, changed the rate from its previous 1.5 percent to the current rate of 2.5 percent. As in the prior fiscal year's budget, \$750,000 of meals tax revenue will be used to finance the following four initiatives:
 - Continue implementing the core strategies recommended by the town's Economic Development Task force, to include branding, marketing, advertising, and other activities, at \$75,000;
 - Continue major road repaving at \$325,000;
 - Continue funding the downtown utility relocation project at \$150,000; and
 - Continue to dedicate funds toward a future parking garage in the downtown at \$200,000.
- Fiscal year 2015 projections for other local taxes took a different track when compared to the previous fiscal year's (2014) revenue projections. For the previous fiscal year, a moderate-to-severe negative impact was anticipated for many of the town's consumer-based revenues sources due to the federal budget stalemate at the time. In particular, potential reductions to outside contracting opportunities and the civilian work force could have negatively affected such local revenues as business licenses, and transient lodging, meals and sales taxes. However, the actual collections for fiscal year 2013 and the year-to-date collection trends for fiscal year 2014 (as of March 2014) were better than initially anticipated. In general, consumer-based revenues sources, with the exception of transient lodging taxes (and, to a lesser extent, meals taxes), are faring better than expected. Thus, the fiscal year 2015 revenue projections are more cautiously optimistic than the prior fiscal year's predictions.
- Service fees and charges (principally generated from town-sponsored programs, recreational classes, recycling fees and special refuse pickup services and reimbursements from other town funds for General Fund indirect costs) have increased in importance over the past decade. The fiscal year 2015 projected revenue from charges for services is \$3,528,300 and is essentially the same as the budgeted amount for fiscal year 2014.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total fiscal year 2015 General Fund resources, which include recurring revenues and other one-time financing sources, are projected at \$32,843,300. Overall, total fiscal year 2015 General Fund resources (including other financing sources) are projected to increase nominally (about 0.9 percent) over the total budgeted amount for fiscal year 2014. The revenue projections are based on an analysis of past collections, the continued affects of federal agency budget reductions and projected trends. The projections also assume many revenue categories, with the exception of consumer-sensitive excise tax sources, will remain flat or experience some nominal growth through fiscal year 2015.
- The July 2014 unemployment rate in Fairfax County (which includes the Town of Herndon) is estimated at 4.2 percent compared to the actual rate of 4.3 percent in July 2013. In comparison, Virginia's seasonally unadjusted unemployment rate for July 2014 is 5.4 percent and the U.S. unemployment rate is estimated at 6.2 percent.

The total adopted fiscal year 2015 budget, including interfund transfers, is \$48,827,100 which is about two percent less than the original budget for fiscal year 2014. Most of the decrease is related to reduced funding for major capital projects.

For the fiscal year 2015 budget, two vacant positions were eliminated and one position which had been previously "frozen" (i.e., not funded) was restored to active. Since fiscal year 2009, the town's list of authorized regular and part-time positions has contracted from 285 positions to 260 positions, a drop of eight percent. In addition, the current budget strengthens the pay-for-performance program with a 2.5 percent average increase for regular status employees and a two percent merit pay increase for eligible sworn police officers.

The fiscal year 2015 budget for all capital projects and information systems improvements (all funds) is \$6.5 million, which is a decrease of \$1.1 million from fiscal year 2014.

In addition to the three capital projects to be funded with revenues generated from the town's meal tax collections, below are the other major capital initiatives for the fiscal year:

- \$865,000 to replace the Bready Park soccer field natural turf with synthetic grass. This project should reduce traditional field maintenance efforts and increase field playability.
- \$210,000 to construct a service facility at Haley M. Smith Park, as described in the park's master plan. The facility will include restrooms and equipment storage.
- \$285,000 to create better vehicular and pedestrian access in the vicinity of the north side of the future Herndon Metrorail station. This project will be funded through a combination of federal CMAQ funding and state House Bill (HB) 2313 regional (70%) monies.
- \$1,180,000 for the design and reconstruction as well as signalization of the Elden Street/ Center Street intersection. Other enhancements such as sidewalk and storm drainage improvements will occur in conjunction with the project. Funding includes a combination of HB 2313 local (30%) monies, general obligation bonds and VDOT revenue sharing.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

- \$785,000 for replacing the entire roof of the town-owned building at 397 Herndon Parkway.
- \$1,970,000 for water and sewer capital projects, including normal water line and sewer main maintenance repairs and rehabilitation. The budget also includes engineering evaluations, capacity studies, surveys and design for expansion of the water and sewer systems into the future Herndon Metrorail development area. Also budgeted for fiscal year 2015 is routine maintenance work followed by repainting of the town's Third Street water tank.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the town's finances and to demonstrate the town's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Town of Herndon, Department of Finance, P.O. Box 427, Herndon, VA 20172-0427.

TOWN OF HERNDON, VIRGINIA

Exhibit A-1

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents and temporary cash investments	\$ 21,164,734	\$ 18,856,790	\$ 40,021,524
Cash with fiscal agent	3,156,490	-	3,156,490
Receivables, net:			
Property taxes	5,404,305	-	5,404,305
Trade and other accounts	650,259	1,327,538	1,977,797
Accrued interest	108,271	79,398	187,669
Due from other governments	1,014,171	-	1,014,171
Inventories	140,943	44,050	184,993
Prepaid costs	64,145	1,130	65,275
Notes receivable	-	83,133	83,133
Internal balances	139,315	(139,315)	-
Capital assets:			
Land	24,608,647	3,418,338	28,026,985
Easements	3,498	-	3,498
Infrastructure	78,589,970	-	78,589,970
Buildings	40,799,416	3,579,748	44,379,164
Improvements other than buildings	10,342,478	29,617,057	39,959,535
Machinery and equipment	10,496,011	2,574,607	13,070,618
Furniture and fixtures	1,875,436	207,558	2,082,994
Intangibles	1,280,778	268,609	1,549,387
Construction in progress	1,608,850	818,685	2,427,535
Less: accumulated depreciation and amortization	(88,594,521)	(23,327,672)	(111,922,193)
Total assets	112,853,196	37,409,654	150,262,850
LIABILITIES			
Accounts payable	1,169,000	1,429,983	2,598,983
Accrued payroll	896,846	92,723	989,569
Accrued liabilities - other	1,966,776	253,681	2,220,457
Accrued interest	172,013	-	172,013
Unearned revenue	477,764	27,601	505,365
Customer deposits and contingent charges	1,656,865	209,612	1,866,477
Noncurrent liabilities:			
Due within one year:			
Compensated absences	581,997	15,307	597,304
Notes payable	139,117	-	139,117
Bonds payable	920,509	209,491	1,130,000
Due in more than one year:			
Compensated absences	1,749,004	262,601	2,011,605
Notes payable	1,312,397	-	1,312,397
Bonds payable	11,673,690	2,537,929	14,211,619
Other postemployment benefits (OPEB)	1,617,401	214,044	1,831,445
Total liabilities	24,333,379	5,252,972	29,586,351
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	5,366,935	-	5,366,935
Total deferred inflows of resources	5,366,935	-	5,366,935
NET POSITION			
Net investment in capital assets	66,964,850	14,409,510	81,374,360
Restricted - Capital Projects Fund	3,156,490	-	3,156,490
Unrestricted	13,031,542	17,747,172	30,778,714
Total net position	\$ 83,152,882	\$ 32,156,682	\$ 115,309,564

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-2

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
Legislative	\$ 627,221	\$ -	\$ -	\$ -	\$ (627,221)	\$ -	\$ (627,221)
Administration	4,043,656	34,762	-	-	(4,008,894)	-	(4,008,894)
Town attorney	539,332	-	-	-	(539,332)	-	(539,332)
Parks and recreation	4,659,976	2,762,453	-	-	(1,897,523)	-	(1,897,523)
Finance	1,320,493	533,200	-	-	(787,293)	-	(787,293)
Community development	1,980,462	-	130,000	-	(1,850,462)	-	(1,850,462)
Police	9,548,043	469,812	751,934	-	(8,326,297)	-	(8,326,297)
Public works	11,530,515	646,287	862,301	1,610,482	(8,411,445)	-	(8,411,445)
Interest	443,213	-	-	-	(443,213)	-	(443,213)
Total governmental activities	34,692,911	4,446,514	1,744,235	1,610,482	(26,891,680)	-	(26,891,680)
Business-type activities:							
Water and sewer	7,589,406	6,007,620	438,140	-	-	(1,143,646)	(1,143,646)
Golf course	1,554,011	1,365,597	-	154,239	-	(34,175)	(34,175)
Chestnut Grove cemetery	707,836	806,521	-	-	-	98,685	98,685
Downtown parking	32,945	-	-	-	-	(32,945)	(32,945)
Total business-type activities	9,884,198	8,179,738	438,140	154,239	-	(1,112,081)	(1,112,081)
Total government	\$ 44,577,109	\$ 12,626,252	\$ 2,182,375	\$ 1,764,721	(26,891,680)	(1,112,081)	(28,003,761)
General Revenues:							
Taxes:							
General property					10,482,821	-	10,482,821
Business licenses					4,750,718	-	4,750,718
Transient occupancy					2,091,900	-	2,091,900
Local sales					1,703,517	-	1,703,517
Meals					2,046,307	-	2,046,307
Other local taxes					2,258,268	-	2,258,268
Revenues not restricted to specific programs					85,328	-	85,328
Intergovernmental, non-categorical aid					1,937,785	-	1,937,785
Use of money and property					1,111,136	487,345	1,598,481
Miscellaneous					1,984,086	615,068	2,599,154
Transfers					(2,109,986)	2,109,986	-
Total general revenues and transfers					26,341,880	3,212,399	29,554,279
Change in net position					(549,800)	2,100,318	1,550,518
Net position, July 1, as restated					83,702,682	30,056,364	113,759,046
Net position, June 30					\$ 83,152,882	\$ 32,156,682	\$ 115,309,564

TOWN OF HERNDON, VIRGINIA

Exhibit A-3

Page 1

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, cash equivalents and temporary cash investments	\$ 13,928,581	\$ 5,583,090	\$ 1,653,063	\$ 21,164,734
Cash with fiscal agent	-	3,156,490	-	3,156,490
Receivables (net of allowance for doubtful accounts):				
Property taxes	5,404,305	-	-	5,404,305
Accounts and other services	620,675	29,584	-	650,259
Accrued interest	88,560	13,160	6,551	108,271
Due from other governments	752,180	261,991	-	1,014,171
Inventories	140,943	-	-	140,943
Prepaid costs	39,145	25,000	-	64,145
Advances to other funds	139,315	-	-	139,315
Total assets	\$ 21,113,704	\$ 9,069,315	\$ 1,659,614	\$ 31,842,633

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 2BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 596,377	\$ 468,626	\$ 103,997	\$ 1,169,000
Accrued payroll	896,846	-	-	896,846
Accrued liabilities - other	1,607,457	359,319	-	1,966,776
Deferred revenue	477,764	-	-	477,764
Deposits	1,559,918	96,947	-	1,656,865
Total liabilities	5,138,362	924,892	103,997	6,167,251
Deferred inflows of resources:				
Unavailable revenue - property taxes	5,396,656	-	-	5,396,656
Total deferred inflows of resources	5,396,656	-	-	5,396,656
Fund Balances:				
Nonspendable:				
Inventories	140,943	-	-	140,943
Prepaid costs	39,145	-	-	39,145
Loan to Cemetery Fund	139,315	-	-	139,315
Committed:				
Cemetery perpetual care	-	-	1,497,956	1,497,956
Revenue stabilization	600,000	-	-	600,000
Assigned:				
Operating materials, services and supplies	280,342	-	-	280,342
Capital equipment and vehicles	370,195	-	-	370,195.00
Subsequent years' expenditures for:				
General Fund	844,237	-	-	844,237
Capital Projects Fund	-	8,144,423	-	8,144,423
Other governmental funds	-	-	57,661	57,661
Unassigned:				
General Fund	8,164,509	-	-	8,164,509
Total fund balances	10,578,686	8,144,423	1,555,617	20,278,726
Total liabilities, deferred inflows of resources and fund balances	\$ 21,113,704	\$ 9,069,315	\$ 1,659,614	\$ 31,842,633

TOWN OF HERNDON, VIRGINIA

Exhibit A-4

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balances - Governmental Funds	\$	20,278,726
--	----	------------

Amounts reported for governmental activities
in the Statement of Net Position are different because:

Capital assets used in governmental activities
are not current financial resources and, therefore,
not reported in the governmental funds.

Governmental capital assets	\$	169,605,084	
Less accumulated depreciation and amortization		(88,594,521)	
Net capital assets		81,010,563	

Unavailable revenue represents amounts that were not available to fund current expenditures, and, therefore, is not reported as revenue in the governmental funds.		29,721
---	--	--------

Long-term liabilities, including bonds payable,
are not due and payable in the current period and,
therefore, are not reported as liabilities in the
governmental funds.

Bonds payable, including unamortized premiums and discounts	(12,594,199)	
Notes payable	(1,451,514)	
Compensated absences	(2,331,001)	
Interest payable	(172,013)	
Other postemployment benefits	(1,617,401)	
		(18,166,128)

Net position of governmental activities	\$	83,152,882
--	-----------	-------------------

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 10,500,239	\$ -	\$ -	\$ 10,500,239
Other local taxes	12,850,710	-	-	12,850,710
Permits, privilege fees and regulatory licenses	532,695	-	-	532,695
Fines and forfeitures	632,491	-	-	632,491
Use of money and property	875,236	210,015	25,885	1,111,136
Charges for services	3,525,332	-	-	3,525,332
Miscellaneous	33,485	-	-	33,485
Intergovernmental	4,721,649	616,586	-	5,338,235
Total revenues	33,671,837	826,601	25,885	34,524,323
Expenditures:				
Current:				
Legislative	622,325	-	-	622,325
Administration	2,319,175	-	-	2,319,175
Town attorney	535,633	-	-	535,633
Parks and recreation	3,985,756	-	-	3,985,756
Finance	1,267,040	-	-	1,267,040
Community development	1,891,352	-	-	1,891,352
Police	9,097,892	-	-	9,097,892
Public works	9,453,015	-	-	9,453,015
Grants	102,305	-	-	102,305
Capital outlay	-	1,981,828	260,334	2,242,162
Debt service:				
Principal	1,540,720	-	-	1,540,720
Interest and fiscal charges	481,073	-	-	481,073
Total expenditures	31,296,286	1,981,828	260,334	33,538,448
Revenues over (under) expenditures	2,375,551	(1,155,227)	(234,449)	985,875

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 2STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 1,951,169	\$ -	\$ -	\$ 1,951,169
Transfers in	-	794,500	253,574	1,048,074
Transfers out	(3,132,175)	-	(25,885)	(3,158,060)
Total other financing sources (uses), net	(1,181,006)	794,500	227,689	(158,817)
Net change in fund balances	1,194,545	(360,727)	(6,760)	827,058
Fund balances, July 1	9,384,141	8,505,150	1,562,377	19,451,668
Fund balances, June 30	\$ 10,578,686	\$ 8,144,423	\$ 1,555,617	\$ 20,278,726

TOWN OF HERNDON, VIRGINIA

Exhibit A-6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

	Governmental Funds	
Net change in fund balances - total governmental funds	\$ 827,058	
Reconciliation of amounts reported for governmental activities in the Statement of Activities:		
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 and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlays in the current period.		
Expenditure for capital assets	\$ 2,464,081	
Less depreciation and amortization expense	<u>(3,528,497)</u>	
Excess of depreciation and amortization over capital outlay		(1,064,416)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net position:		
Disposal of capital assets		(1,298,923)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue		(222,395)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.		
Principal repayments:		
General obligation debt		1,540,720
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Accrued interest	24,335	
Compensated absences	(48,637)	
Other postemployment benefits	(321,067)	
Amortization of premiums and discounts	<u>13,525</u>	
		<u>(331,844)</u>
Change in net position of governmental activities	\$	<u>(549,800)</u>

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 1

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Revenues:				
General property taxes	\$ 10,557,900	\$ 10,557,900	\$ 10,500,239	\$ (57,661)
Other local taxes	11,495,200	11,495,200	12,850,710	1,355,510
Permits, privilege fees and regulatory licenses	302,200	302,200	532,695	230,495
Fines and forfeitures	553,900	553,900	632,491	78,591
Use of money and property	686,000	686,000	875,236	189,236
Charges for services	3,546,200	3,546,200	3,525,332	(20,868)
Miscellaneous	30,000	30,000	33,485	3,485
Intergovernmental	4,454,000	4,454,000	4,721,649	267,649
Total revenues	31,625,400	31,625,400	33,671,837	2,046,437
Expenditures:				
Current:				
Legislative	940,100	626,300	622,325	(3,975)
Administration	2,342,100	2,583,511	2,319,175	(264,336)
Town attorney	481,000	553,478	535,633	(17,845)
Parks and recreation	4,053,900	4,146,350	3,985,756	(160,594)
Finance	1,298,500	1,312,640	1,267,040	(45,600)
Community development	2,073,100	2,135,961	1,891,352	(244,609)
Police	9,084,300	9,247,808	9,097,892	(149,916)
Public works	9,220,500	10,136,306	9,453,015	(683,291)
Grants	-	-	102,305	102,305
Debt Service:				
Principal	1,540,700	1,540,700	1,540,720	20
Interest and fiscal charges	485,500	485,500	481,073	(4,427)
Total expenditures	31,519,700	32,768,554	31,296,286	(1,472,268)
Revenues over (under) expenditures	105,700	(1,143,154)	2,375,551	3,518,705

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 17,800	\$ 17,800	\$ 1,951,169	\$ 1,933,369
Capital lease proceeds	390,000	390,000	-	(390,000)
Transfers out	(1,028,500)	(1,198,500)	(3,132,175)	(1,933,675)
Total other financing uses, net	(620,700)	(790,700)	(1,181,006)	(390,306)
Net change in fund balance	(515,000)	(1,933,854)	1,194,545	3,128,399
Fund balance, July 1	515,000	1,933,854	9,384,141	7,450,287
Fund balance, June 30	\$ -	\$ -	\$ 10,578,686	\$ 10,578,686

TOWN OF HERNDON, VIRGINIA

Exhibit A-8

Page 1

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
ASSETS					
Current Assets:					
Cash, cash equivalents and temporary cash investments	\$ 14,104,273	\$ 1,048,075	\$ 619,683	\$ 3,084,759	\$ 18,856,790
Receivables (net of allowance for doubtful accounts):					
Accounts and other services	1,312,673	2,151	-	12,714	1,327,538
Accrued interest	64,989	4,808	498	9,103	79,398
Inventories	10,008	34,042	-	-	44,050
Prepaid costs	-	-	130	1,000	1,130
Current notes receivable	-	-	-	30,185	30,185
Total current assets	15,491,943	1,089,076	620,311	3,137,761	20,339,091
Noncurrent Assets:					
Notes receivable (net of allowance for doubtful accounts)	-	-	-	52,948	52,948
Capital assets:					
Land	200,000	1,621,574	718,500	878,264	3,418,338
Buildings	-	2,316,728	1,263,020	-	3,579,748
Improvements other than buildings	24,781,444	2,930,679	1,444,889	460,045	29,617,057
Machinery and equipment	1,570,940	893,121	110,546	-	2,574,607
Furniture and fixtures	194,919	5,919	6,720	-	207,558
Intangibles	268,609	-	-	-	268,609
Construction in progress	603,285	215,400	-	-	818,685
Less accumulated depreciation and amortization	(17,667,158)	(4,150,078)	(1,071,527)	(438,909)	(23,327,672)
Total capital assets (net of accumulated depreciation and amortization)	9,952,039	3,833,343	2,472,148	899,400	17,156,930
Total noncurrent assets	9,952,039	3,833,343	2,472,148	952,348	17,209,878
Total assets	25,443,982	4,922,419	3,092,459	4,090,109	37,548,969

TOWN OF HERNDON, VIRGINIA

Exhibit A-8

Page 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 1,411,080	\$ 8,599	\$ 10,304	\$ -	\$ 1,429,983
Accrued payroll	40,540	37,738	14,445	-	92,723
Accrued liabilities - other	194,799	26,154	32,728	-	253,681
Unearned revenue	-	27,601	-	-	27,601
Compensated absences	4,684	6,743	3,880	-	15,307
Deposits	209,612	-	-	-	209,612
Advances from other funds	-	-	139,315	-	139,315
Current general obligation bonds payable	-	93,085	116,406	-	209,491
Total current liabilities	1,860,715	199,920	317,078	-	2,377,713
Noncurrent Liabilities:					
Compensated absences	90,235	131,841	40,525	-	262,601
Other postemployment benefits	118,230	66,023	29,791	-	214,044
Long-term general obligation bonds payable, net	-	952,620	1,585,309	-	2,537,929
Total noncurrent liabilities	208,465	1,150,484	1,655,625	-	3,014,574
Total liabilities	2,069,180	1,350,404	1,972,703	-	5,392,287
Net Position:					
Net investment in capital assets	9,952,039	2,787,638	770,433	899,400	14,409,510
Unrestricted	13,422,763	784,377	349,323	3,190,709	17,747,172
Total net position	\$ 23,374,802	\$ 3,572,015	\$ 1,119,756	\$ 4,090,109	\$ 32,156,682

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 1

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Operating revenues:					
Sale of water	\$ 2,638,579	\$ -	\$ -	\$ -	\$ 2,638,579
Sewer service charges	3,285,055	-	-	-	3,285,055
Late payment charges	76,160	-	-	-	76,160
Sale of commodities	7,826	-	-	-	7,826
Rents and leases	446,970	43,192	-	-	490,162
Greens fees	-	950,934	-	-	950,934
Golf cart revenue	-	275,394	-	-	275,394
Golf pro shop sales	-	69,864	-	-	69,864
Driving range fees	-	69,405	-	-	69,405
Cemetery sites	-	-	535,741	-	535,741
Interment services	-	-	177,490	-	177,490
Merchandise sales	-	-	93,290	-	93,290
Miscellaneous	11,513	18,920	34,172	26,903	91,508
Total operating revenues	6,466,103	1,427,709	840,693	26,903	8,761,408
Operating expenses:					
Finance	246,909	-	-	-	246,909
Water main maintenance	1,922,167	-	-	-	1,922,167
Sewer service charge	4,182,962	-	-	-	4,182,962
Contractual services	485,200	-	-	-	485,200
Golf course operations	-	692,762	-	-	692,762
Golf course club house	-	547,930	-	-	547,930
Cemetery operations	-	-	491,054	-	491,054
Downtown parking	-	-	-	28,451	28,451
Nondepartmental:					
Depreciation and amortization	703,372	214,894	107,965	4,494	1,030,725
Miscellaneous	48,796	57,465	22,974	-	129,235
Total operating expenses	7,589,406	1,513,051	621,993	32,945	9,757,395
Operating income (loss)	(1,123,303)	(85,342)	218,700	(6,042)	(995,987)

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Nonoperating revenues (expenses):					
Investment earnings	\$ 431,932	\$ 35,152	\$ 10,348	\$ 9,913	\$ 487,345
Availability fees	438,140	-	-	-	438,140
Interest expense	-	(40,960)	(85,843)	-	(126,803)
Gain on sale of capital assets	16,180	-	-	17,218	33,398
Total nonoperating revenues (expenses), net	886,252	(5,808)	(75,495)	27,131	832,080
Income (loss) before capital contributions and transfers	(237,051)	(91,150)	143,205	21,089	(163,907)
Capital contributions	-	154,239	-	-	154,239
Transfers in	-	-	25,885	2,137,675	2,163,560
Transfers out	-	-	(53,574)	-	(53,574)
Change in net position	(237,051)	63,089	115,516	2,158,764	2,100,318
Total net position, July 1, as restated	23,611,853	3,508,926	1,004,240	1,931,345	30,056,364
Total net position, June 30	\$ 23,374,802	\$ 3,572,015	\$ 1,119,756	\$ 4,090,109	\$ 32,156,682

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
Page 1STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 6,435,686	\$ 1,429,771	\$ 854,218	\$ 15,045	\$ 8,734,720
Payments to suppliers for goods and services	(5,655,110)	(424,194)	(184,580)	(26,951)	(6,290,835)
Payments to employees for services	(914,507)	(860,186)	(328,216)	-	(2,102,909)
Net cash provided by (used in) operating activities	(133,931)	145,391	341,422	(11,906)	340,976
Cash Flows From Noncapital Financing Activities:					
Transfers in from other funds	-	-	25,885	2,137,675	2,163,560
Transfers out to other funds	-	-	(53,574)	-	(53,574)
Repayment of advances from other funds	-	-	(12,665)	-	(12,665)
Interest paid on advances from other funds	-	-	(6,459)	-	(6,459)
Net cash provided by (used in) noncapital financing activities	-	-	(46,813)	2,137,675	2,090,862
Cash Flows From Capital and Related Financing Activities:					
Water and sewer tap fees/contributions from local sources	438,140	-	-	-	438,140
Capital grant	-	154,000	-	-	154,000
Acquisition and construction of capital assets	(732,059)	(186,331)	(30,807)	-	(949,197)
Proceeds from the sale of capital assets	16,180	-	762	17,290	34,232
Principal paid on bonds	-	(89,146)	(114,133)	-	(203,279)
Interest paid on bonds	-	(42,294)	(81,210)	-	(123,504)
Net cash provided by (used in) capital and related financing activities	(277,739)	(163,771)	(225,388)	17,290	(649,608)
Cash Flows From Investing Activities:					
Principal received on note receivable	-	-	-	30,185	30,185
Interest received on note receivable	-	-	-	10,916	10,916
Interest received on investment securities	429,070	32,201	10,348	-	471,619
Net cash provided by investing activities	429,070	32,201	10,348	41,101	512,720
Net increase in cash and cash equivalents	17,400	13,821	79,569	2,184,160	2,294,950
Cash and Cash Equivalents:					
Beginning	14,086,873	1,034,254	540,114	900,599	16,561,840
Ending	\$ 14,104,273	\$ 1,048,075	\$ 619,683	\$ 3,084,759	\$ 18,856,790

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
Page 2STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
Cash Flows From Operating Activities:					
Operating income (loss)	\$ (1,123,303)	\$ (85,342)	\$ 218,700	\$ (6,042)	\$ (995,987)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	703,372	214,894	107,965	4,494	1,030,725
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(1,275)	2,062	13,525	(11,858)	2,454
Inventories	17,501	(3)	-	-	17,498
Prepaid costs and other assets	1,962	-	1,091	1,500	4,553
Increase (decrease) in:					
Accounts payable, accrued liabilities and compensated absences	296,954	13,780	141	-	310,875
Deposits	(29,142)	-	-	-	(29,142)
Net cash provided by (used in) operating activities	\$ (133,931)	\$ 145,391	\$ 341,422	\$ (11,906)	\$ 340,976

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

**STATEMENT OF NET POSITION
FIDUCIARY FUND**

June 30, 2014

(With Comparative Amounts for 2013)

	<div>Pension Trust Fund</div> <div>Police Supplemental</div> <div>Retirement Pension</div> <div>Trust Fund</div>	
	2014	2013
<hr/>		
ASSETS		
Mutual funds	\$ 3,057,727	\$ 2,575,811
Total assets	3,057,727	2,575,811
<hr/>		
NET POSITION		
Held in trust for pension benefits	\$ 3,057,727	\$ 2,575,811
	<hr/>	<hr/>

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDYear Ended June 30, 2014
(With Comparative Amounts for 2013)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2014	2013
Additions:		
Employer contributions	\$ 137,943	\$ 138,038
Rollovers from prior employers	6,507	-
Total contributions	144,450	138,038
Investment income:		
Net increase in the fair market value of investments	453,508	282,757
Total additions, net	597,958	420,795
Deductions:		
Benefit payments	116,042	199,855
Change in net position	481,916	220,940
Net position, July 1	2,575,811	2,354,871
Net position, June 30	\$ 3,057,727	\$ 2,575,811

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of the Town of Herndon, Virginia (the town) conform with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies used by the town.

The Town of Herndon, located in the County of Fairfax, Virginia, was incorporated in 1879 under the provisions of the constitution and general statutes of the Commonwealth of Virginia.

The town is governed under the Town Manager-Council form of government. The town engages in a comprehensive range of municipal services, including general government administration; public safety and administration of justice; refuse collection; street and sidewalk maintenance; street lighting; zoning enforcement; education, health, welfare, and human service programs; planning, community development and recreation; and cultural and historic activities. Other municipal services including public education; technical and special education services; health and social services; mental health assistance; fire and ambulance services; judicial services; correctional facilities; and additional recreation services and facilities are provided by the County of Fairfax, Virginia.

As required by GAAP, these financial statements present the town's financial position. The town does not have any component units, entities for which the town is considered to be financially accountable or blended component units, legally separate entities which are in substance part of the town's operations.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *government* and *business-type activities* of the town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the town and for each function of the town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation (Continued)

Fund Financial Statements: The fund financial statements provide information about the town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, of which each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

Operating expenses include cost of services, administrative expenses, and depreciation and amortization on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

The town reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or the Information Systems Improvement Fund.

The town reports the following major enterprise funds:

Water and Sewer Fund

The Water and Sewer Fund accounts for services to the general public, which are financed primarily by charges to users of those services.

Golf Course Fund

The Golf Course Fund accounts for the operation and maintenance of the golf course.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation (Continued)

Chestnut Grove Cemetery Fund

The Chestnut Grove Cemetery Fund accounts for operations of the cemetery.

Downtown Parking Fund

The Downtown Parking Fund accounts for the operation and maintenance of the town's Downtown Public Shared Parking Program.

Additionally, the town reports the following fund types:

Police Supplemental Retirement Pension Trust Fund

The purpose of this fund is to provide retirement benefits in addition to the benefits provided by the Virginia Retirement System and Social Security. The town has contracted with various financial institutions and insurance carriers to provide fiscal agent services including the accounting, investment, and disbursement services related to this fund.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Accounting (Continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The town considers all revenues reported in the governmental funds to be available if the revenues are collected within 75 days after year-end, except property taxes which are recognized as revenue if they have been collected within 45 days after year-end. All taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

C. Budgetary Data

The *Code of Virginia* makes a clear distinction between budgets and appropriations. Budgets are for informational and fiscal planning purposes, whereas appropriations are authorizations to incur expenditures.

Prior to April 1, the town Manager submits to the town Council a proposed operating budget for the fiscal year commencing the following July 1. Annual budgets for the General Fund, and the enterprise funds are adopted at the department level. Capital projects are budgeted on a project basis. The operating and capital budgets include proposed expenditures and the means of financing them. A brief synopsis of the proposed budget is published at least once in a newspaper with general circulation within the town. Additionally, notice is given of one or more public hearings at least ten days prior to the public hearing. The public hearing provides any citizen the opportunity to comment on the budget.

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. This resolution appropriates all budgeted amounts. The Appropriations Resolution places legal restrictions on expenditures for each department or category level. The town Manager is authorized to transfer budgeted amounts of the General Fund, Water and Sewer Fund, Golf Course Fund and Downtown Parking Enterprise Funds within a department or between departments. The total amount of each transfer shall not exceed \$30,000 and multiple transfers for the same account cannot exceed a total of \$30,000. Transfers exceeding \$30,000 must be authorized by the town Council. Although transfers within the budget less than \$30,000 may be made without approval, all increases or decreases to the approved budget must be approved by the town Council before being made. During the year, the town Council approves additional appropriations, as needed, in the form of Budget Amendments. During the year ended June 30, 2014, budget revisions to governmental funds were made, which resulted in a \$1,248,854 increase in budgeted expenditures.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Budgetary Data (Continued)

All budgets are adopted on a basis consistent with GAAP. Appropriations lapse June 30 unless specifically encumbered, committed, or assigned. At year-end, the town Council meets to encumber these appropriations for the next fiscal year.

All budget data presented in the accompanying financial statements is the revised budget as of June 30 and includes the budget revisions disclosed previously. Unfavorable variances reported herein should not be interpreted to represent violations of laws as the legal level of fiscal control is based on total appropriated expenditures by fund.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

(1) Deposits and Investments

Cash resources of the governmental and proprietary funds are combined to form a pool of deposits and investments to maximize interest earnings potential. The pool consists primarily of certificates of deposit, repurchase agreements, government securities, and a local government investment pool. The government securities are stated at fair value based on quoted market prices and the investment in the local government investment pool (a 2a7-like pool) is reported at the pool's share price.

For purposes of the statement of cash flows, the town's enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are shown as a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Water and sewer receivables are shown net of an allowance for uncollectibles and consist of billed and unbilled utility receivables. Unbilled receivables are an estimate of utility services provided but not billed by year end.

Allowances for uncollectible accounts receivable (real estate taxes and utility billings) are calculated using historical collection data, specific account analysis, and management's judgment.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

(2) Receivables and Payables (Continued)

The town levies real estate taxes as of January 1 on all real property in the town on a calendar year basis at a rate enacted by town Council. The levies are based on the assessed value of property as determined by the Director of Real Estate Assessments of Fairfax County. All property is assessed at 100 percent of appraised value and reassessed each year as of January 1. Real estate taxes are collected in equal installments due July 28 and December 5. Lien dates are 190 days after the due date. The tax rate during 2014 per \$100 of assessed value was \$.265. No discounts are allowed. A late penalty of ten percent is charged after July 28 and December 5. Interest of ten percent on tax and penalty is charged from August 1 for the first half real estate taxes and from January 1 for second half real estate taxes.

The town did not assess personal property taxes during fiscal year 2014.

The portion of taxes receivable that is not collected within 45 days after June 30 is shown as unavailable revenue.

(3) Inventories

Inventories in the proprietary funds are recorded at the lower of cost (first-in, first-out) or market. These inventories consist primarily of parts held for consumption.

Inventory in the General Fund consists of expendable supplies held for consumption and is recorded at cost (determined on a first-in, first-out basis). The cost is recorded as an expenditure when consumed.

(4) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

(5) Restricted Cash

In accordance with the agreements resulting in the issuance of debt, the Capital Projects Fund has a portion of its cash balance restricted and shown as "Cash with fiscal agent" on the Governmental Funds' Balance Sheet and the Statement of Net Position. This restriction on cash balances is due to the intended use, as prescribed in the applicable bond covenants.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

(6) Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. The town currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The town has only one type of item, which arises under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

(7) Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during construction on governmental activities' capital assets is not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest is amortized using the straight-line method over the useful life of the asset.

Capital assets and infrastructure are defined by the town as assets with an initial, individual cost of more than \$5,000 and \$20,000, respectively, and an estimated useful life in excess of two years.

The town has included all infrastructure assets of the town, including assets acquired before June 30, 1980.

Maintenance, repairs, and minor renewals are charged to operations when incurred. Expenses which materially increase values, change capacities, or extend useful lives are capitalized.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

(7) Capital Assets (Continued)

The town's intangible assets consist of land easements and software, which were previously recorded and classified as machinery and equipment. Land easements have indefinite useful lives and thus are not subject to amortization.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	20 - 50 years
Buildings	10 - 50 years
Improvements other than buildings	5 - 50 years
Machinery and equipment	2 - 20 years
Furniture and fixtures	10 - 20 years
Intangibles	5 years

(8) Compensated Absences

Vacation can be accumulated up to 37.5 days for all employees except department heads who can accumulate 40 days. Unused accumulated vacation is paid upon termination, death or retirement. Employees may utilize their sick leave benefit to the extent sickness causes employees to be absent. Upon retirement under the Virginia Retirement System, employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$10,000. Upon termination of employment except for dismissals, non-probationary full-time employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$2,500. A prorated amount shall be paid to non-probationary part-time employees. The vested amount is accrued in compensated absences.

Compensated absences are accrued when incurred in proprietary funds and reported as a fund liability. The General Fund is responsible for paying the liability for compensated absences for General Government employees and has been used in prior years to liquidate the Governmental Funds' liability.

Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

All amounts accrued for compensated absences are recorded on the entity-wide statements.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

(9) Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums, discounts, and deferred losses on refundings are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(10) Fund Equity

In the fund financial statements, governmental funds report classifications of fund balance as follows:

Nonspendable fund balance – amounts that are not in a spendable form or are required to be maintained intact (such as prepaid items, inventory, and advances between funds).

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, creditors, or laws and regulations of other governments), or by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the town Council. To be reported as committed, amounts cannot be used for any other purpose unless the town Council takes the action to remove or change the constraint. The action must be in the form of a budget amendment ordinance passed by the town Council after a public meeting.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

(10) Fund Equity (Continued)

Assigned – amounts constrained by the town's intent but are neither restricted nor committed. Encumbrances outstanding at year-end are designated by management, as allowed by the town's financial policies. Re-appropriations are then formally adopted by the town Council in the following fiscal year through a budget amendment. Amounts designated for subsequent years' expenditures are adopted by a resolution of the town Council which is retroactive to fiscal year-end. The action normally takes place during the month of July, which is after fiscal year-end. These amounts are also formally re-appropriated by the town Council in the following fiscal year through a budget amendment.

Unassigned fund balance – residual balance of the General Fund that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The town will consider the use of restricted, committed, or assigned funds prior to the use of unassigned fund balance.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

The town maintains a cash and investment pool that is available for use by all funds, except the Pension Trust Fund. Investment income is allocated to certain designated funds based on the percentage of the fund's cash and investments at month-end to the total pool. The Capital Projects Fund and the Water and Sewer Fund have specific designated investments as well as having equity in pooled cash and investments.

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and, depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Custodial Credit Risk

This is the risk that in the event of a bank failure, the town's deposits may not be returned to it. The town's investment policy requires all deposits to be insured under FDIC or comply with the Virginia Security for Public Deposits Act. At year end, none of the town's deposits were exposed to custodial credit risk.

Investments

The State Treasurer's Local Government Investment Pool (LGIP) is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Sec 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share.

Investment Policy

State statutes and the town's policy authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, "prime-quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, open-end investment funds (mutual funds), certificates of deposit, and the LGIP. The town has investments in the LGIP, and the maturity of the LGIP is less than one year and is rated AAAM by Standard & Poor's.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investment Policy (Continued)

The town's investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

U. S. Treasury Obligations	100% maximum
U. S. Government Agency Securities and Instruments of Government Sponsored Corporations	100% maximum
Open-End Investment Funds (Mutual Funds)	100% maximum
Bankers' Acceptances	50% maximum
Repurchase Agreements	25% maximum
Certificate of Deposits – Virginia Qualified Commercial Banks, Savings and Loan Associations	75% maximum
Commercial Paper	35% maximum
Local Government Investment Pool	100% maximum

Further, of the total portfolio, no more than 25% can be invested with any one institution for Bankers' Acceptances, 10% with any one institution for Repurchase Agreements, 33% with any one institution for Certificates of Deposit, and no more than 5% with any one institution for Commercial Paper.

Credit Risk

As required by state statute, the Policy requires commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's "Aa" by Moody's Investors Service.

As of June 30, 2014, 25% of the portfolio was invested in "AA+" U. S. Agency Securities, 39% was invested in "AAA" U. S. Agency Securities, 11% was invested in "AA-" U. S. Agency Securities, 1% was invested in "A+" U. S. Agency Securities, 10% was invested in "AAAm" rated Money Market Funds, 2% was invested in "A-" U. S. Agency Securities, 1% was invested in "A" U. S. Agency Securities, 2% was invested in "A1" U. S. Agency Securities, and 9% was invested in an unrated Money Market Fund. All credit ratings presented in this paragraph are Standard & Poor's ratings.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2014, the portion of the town's portfolio, excluding the LGIP, U. S. Government guaranteed obligations and money market mutual funds, that exceed 5% of the total portfolio are as follows:

Federal National Mortgage Association	43%
Municipal Bonds	33%
Certificates of Deposit	10%
Fixed Income	10%

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting exposure to fair value losses arising from rising interest rates, the town's policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except for investments of capital projects, long-term reserve and other escrow funds that will be timed to meet contractors' payments, debt service or other anticipated financial obligations. In such cases, the town may invest reserve and escrow funds in securities maturing up to ten years from the date of purchase.

	Fair Value	Investment Maturities (in years)		
		Less Than 1 Year	1 – 5 Years	5 – 10 Years
U. S. Agencies	\$ 27,783,538	\$ 2,974,459	\$ 17,331,526	\$ 7,477,553

Interest rate risk does not apply to the local government investment pool since it is a 2a7-like pool.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 3. Receivables

Receivables at June 30, 2014 for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Capital Projects Fund	Water and Sewer Fund	Golf Course Fund	Downtown Parking Fund	Totals
Property tax	\$ 5,408,652	\$ -	\$ -	\$ -	\$ -	\$ 5,408,652
Meals tax	186,503	-	-	-	-	186,503
Transient occupancy tax	205,774	-	-	-	-	205,774
Fines and forfeitures	74,488	-	-	-	-	74,488
Trade and other accounts	153,910	29,584	1,455,126	2,151	12,714	1,653,485
Gross receivables	6,029,327	29,584	1,455,126	2,151	12,714	7,528,902
Less allowance for uncollectible accounts	(4,347)	-	(142,453)	-	-	(146,800)
Net receivables	\$ 6,024,980	\$ 29,584	\$ 1,312,673	\$ 2,151	\$ 12,714	\$ 7,382,102

Governmental funds report unavailable 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. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the General Fund were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 29,721	\$ -
Advance billing of 2014-2015 taxes	5,366,935	-
Intergovernmental	-	305,491
Other	-	172,273
	<u>\$ 5,396,656</u>	<u>\$ 477,764</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 4. Due From Other Governments

Amounts due from other governments include the following:

General Fund:	
Federal government	\$ 10,389
Commonwealth of Virginia	611,883
Other Local:	
County of Fairfax	100,251
Northern Virginia Cigarette Tax Board	29,657
	129,908
Total General Fund	752,180
Capital Projects Fund:	
Federal government	200,000
Commonwealth of Virginia	61,991
Total Capital Projects Fund	261,991
Total due from other governments	\$ 1,014,171

Note 5. Notes Receivable

Notes receivable as of June 30, 2014 consist of the following:

	Downtown Parking Enterprise Fund
4.715% note, due in annual installments of \$2,036, plus interest through March 2017	\$ 6,110
4.27% note, due in annual installments of \$16,291, plus interest through October 2017	65,166
4.515% note, due in annual installments of \$11,858, plus interest through October 2023	118,575
	189,851
Less current maturities	(30,185)
Less allowance for uncollectible accounts	(106,718)
Long-term portion, net	\$ 52,948

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	Beginning Balance	Increases	(Deletions)/ Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated or amortized:				
Land	\$ 25,871,692	\$ -	\$ (1,263,045)	\$ 24,608,647
Easements	3,498	-	-	3,498
Construction in progress	570,175	1,680,319	(641,644)	1,608,850
Total capital assets, not being depreciated or amortized	26,445,365	1,680,319	(1,904,689)	26,220,995
Capital assets, being depreciated and amortized:				
Infrastructure	78,510,806	-	79,164	78,589,970
Buildings	40,462,681	-	336,735	40,799,416
Improvements other than buildings	10,285,047	-	57,431	10,342,478
Machinery and equipment	9,921,659	783,762	(209,410)	10,496,011
Intangibles	1,280,778	-	-	1,280,778
Furniture and fixtures	1,750,436	-	125,000	1,875,436
Total capital assets being depreciated and amortized	142,211,407	783,762	388,920	143,384,089
Less accumulated depreciation and amortization for:				
Infrastructure	56,278,725	1,630,784	-	57,909,509
Buildings	13,450,856	1,051,938	-	14,502,794
Improvements other than buildings	6,377,127	306,014	-	6,683,141
Machinery and equipment	7,098,220	415,809	(216,846)	7,297,183
Intangibles	1,130,632	47,816	-	1,178,448
Furniture and fixtures	947,310	76,136	-	1,023,446
Total accumulated depreciation and amortization	85,282,870	3,528,497	(216,846)	88,594,521
Total capital assets being depreciated and amortized, net	56,928,537	(2,744,735)	605,766	54,789,568
Governmental activities capital assets, net	\$ 83,373,902	\$ (1,064,416)	\$ (1,298,923)	\$ 81,010,563

Depreciation and amortization was charged to programs/functions as follows:

Governmental activities:	
Legislative	\$ 440
Administration	272,176
Parks and Recreation	653,816
Finance	40,371
Community Development	39,650
Police	358,457
Public Works	<u>2,163,587</u>
Total depreciation and amortization expense – governmental activities	\$ 3,528,497

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	Beginning Balance	Increases	(Deletions)/ Transfers	Ending Balance
Business-type activities:				
Capital assets, not being depreciated or amortized:				
Land	\$ 3,418,338	\$ -	\$ -	\$ 3,418,338
Construction in progress	285,700	886,298	(353,313)	818,685
Total capital assets, not being depreciated or amortized	3,704,038	886,298	(353,313)	4,237,023
Capital assets, being depreciated and amortized:				
Buildings	3,579,748	-	-	3,579,748
Improvements other than buildings	29,263,744	-	353,313	29,617,057
Machinery and equipment	2,600,894	62,899	(89,186)	2,574,607
Furniture and fixtures	207,558	-	-	207,558
Intangibles	268,609	-	-	268,609
Total capital assets being depreciated and amortized	35,920,553	62,899	264,127	36,247,579
Less accumulated depreciation and amortization:				
Buildings	1,501,041	124,416	-	1,625,457
Improvements other than buildings	18,178,831	828,436	-	19,007,267
Machinery and equipment	2,282,581	55,607	(88,354)	2,249,834
Furniture and fixtures	205,233	336	-	205,569
Intangibles	217,615	21,930	-	239,545
Total accumulated depreciation and amortization	22,385,301	1,030,725	(88,354)	23,327,672
Total capital assets being depreciated and amortized, net	13,535,252	(967,826)	352,481	12,919,907
Business-type activities capital assets, net	\$ 17,239,290	\$ (81,528)	\$ 832	\$ 17,156,930
Business-type activities:				
Water and Sewer			\$	703,372
Golf Course				214,894
Chestnut Grove Cemetery				107,965
Downtown Parking Enterprise				4,494
Total depreciation and amortization expense - business-type activities			\$	1,030,725

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2014:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds and notes payable:					
General obligation bonds	\$ 13,869,145	\$ -	\$ 1,401,721	\$ 12,467,424	\$ 920,509
Notes payable	1,590,513	-	138,999	1,451,514	139,117
Total	15,459,658	-	1,540,720	13,918,938	1,059,626
Compensated absences	2,282,364	2,108,593	2,059,956	2,331,001	581,997
Governmental activities long-term liabilities	17,742,022	2,108,593	3,600,676	16,249,939	<u>\$ 1,641,623</u>
Plus deferred amount for bond premiums	157,091	-	14,868	142,223	
Less deferred amount for bond discounts	(16,791)	-	(1,343)	(15,448)	
	<u>\$ 17,882,322</u>	<u>\$ 2,108,593</u>	<u>\$ 3,614,201</u>	<u>\$ 16,376,714</u>	

Annual requirements to amortize long-term bonded debt are as follows:

Year Ending June 30,	General Long-Term Debt			
	General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2015	\$ 920,509	\$ 403,382	\$ 139,117	\$ 26,512
2016	1,014,123	366,134	139,238	24,041
2017	1,057,517	335,125	139,363	21,567
2018	1,091,632	301,774	139,493	19,089
2019	1,127,676	266,677	139,625	16,608
2020-2024	5,570,217	790,806	710,255	45,794
2025-2029	1,531,000	155,033	29,208	4,633
2030-2032	154,750	5,706	15,215	645
	<u>\$ 12,467,424</u>	<u>\$ 2,624,637</u>	<u>\$ 1,451,514</u>	<u>\$ 158,889</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Bonds

\$3,800,000 taxable public improvement bonds issued December 1, 2003, interest at 5.02% payable semi-annually, annual maturity of \$420,000 through August 2014	\$ 420,000
\$4,800,000 tax-exempt public improvement bonds issued December 1, 2005, interest at 4.00% to 4.50% payable semi-annually, annual maturity from \$220,000 to \$350,000 through August 2025	3,365,000
\$500,000 tax-exempt public improvement bonds issued February 8, 2007, interest at 4.00% to 5.25%, payable semi-annually, annual maturity from \$21,018 to \$37,611 through February 2027	370,575
\$2,375,000 tax-exempt Build America and Recovery Zone bonds issued March 1, 2010, interest at 3.00% to 6.07% payable semi-annually, annual maturity \$95,450 to \$154,750 through February 2030	2,018,100
\$1,766,365 refunding bonds issued December 7, 2010, interest at 3.25% to 5.25%, payable semi-annually, annual maturity from \$164,041 to \$205,051 through February 2021	1,294,749
\$4,999,000 refunding bonds issued June 29, 2012, interest at 2.15% payable semi-annually, annual maturity beginning in fiscal year 2016 from \$492,500 to \$613,000 through August 2023	<u>4,999,000</u>
Total general obligation bonds	<u>\$ 12,467,424</u>

Notes Payable:

\$1,765,000 VML/VACO Finance Program note payable, payable annually, plus interest, annual maturity from \$135,000 to \$140,000 through July 2024. Interest payments at a variable rate averaged 1.37% for fiscal year 2014	\$ 1,360,000
\$100,000 VRA loan note payable, interest at 2.93%, payable semi-annually, plus interest, semi-annual maturity from \$2,043 to \$3,302 through September 2031	<u>91,514</u>
	<u>\$ 1,451,514</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

In February 2007, public improvement bonds were issued. In March 2010, Build America and Recovery Zone bonds were issued. Additionally, in December 2010, General Obligation Refunding Bonds were issued, which refunded the 2001 General Obligation Public Improvement bonds. The proceeds of each of these issuances have been used to finance governmental and business-type activities (golf course and cemetery). This debt is being accounted for in the respective fund that utilized the debt proceeds.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities:					
Serial bonds	\$ 2,849,855	\$ -	\$ 203,279	\$ 2,646,576	\$ 209,491
Compensated absences	264,993	188,177	175,262	277,908	15,307
Plus deferred amount for bond premiums	111,748	-	10,904	100,844	-
Business-type activities long-term liabilities	\$ 3,226,596	\$ 188,177	\$ 389,445	\$ 3,025,328	\$ 224,798

Annual requirements to amortize long-term debt are as follows:

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2015	\$ 209,491	\$ 115,483
2016	218,377	105,831
2017	228,483	97,278
2018	237,368	88,120
2019	248,324	77,532
2020-2024	930,283	238,604
2025-2029	529,000	61,493
2030	45,250	1,168
	<u>\$ 2,646,576</u>	<u>\$ 785,509</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

	Golf Course Fund	Chestnut Grove Cemetery Fund
Serial bonds:		
\$1,760,000 public improvement bonds, issued February 8, 2007, interest at 4.00% to 5.25% payable semi-annually, annual maturity from \$73,982 to \$132,389 through February 2027	\$ -	\$ 1,304,425
\$500,000 Build America and Recovery Zone bonds, issued March 1, 2010, interest at 3.00% to 6.07% payable semi-annually, annual maturity from \$19,550 to \$45,250 through February 2030	426,900	-
\$1,248,635 General Obligation Refunding Bond, issued December 7, 2010, to refund the outstanding Public Improvement Bonds issued in 2001; interest at 3.25% to 5.25%, payable semi-annually, annual maturity from \$42,424 to \$91,919 through February 2021	580,404	334,847
	<u>\$ 1,007,304</u>	<u>\$ 1,639,272</u>

The town's available legal debt margin mandated by the Commonwealth of Virginia is \$372,355,761, which is computed based upon 10% of the assessed value of real estate subject to taxation less applicable bonded debt.

Note 8. Pension Plan

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>About VRS Plan 1</p> <p>VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About VRS Plan 2</p> <p>VRS Plan 2 is a defined plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership data is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>Eligible Members Employees are in the VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>*Non-Eligible Members (Continued) Those employees eligible for an Optional Retirement Plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p> <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as VRS Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>
		<p><u>Defined Contributions Component</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
Vesting (Continued)	Vesting (Continued)	Vesting (Continued)
Members are always 100% vested in the contributions they make.		<p><u>Defined Contributions Component</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70 1/2.</p>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component</u> See definition under VRS Plan 1.</p> <p><u>Defined Contribution Component</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefits. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>Normal Retirement Age Age 65.</p>	<p>Normal Retirement Age Normal Social Security retirement age.</p>	<p>Normal Retirement Age</p> <p><u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.</p> <p>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <p><u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%) up to a maximum COLA of 3%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after on calendar year following the unreduced retirement eligibility date.</p>	<p><u>Eligibility:</u> Same as VRS Plan 1.</p>	<p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1		VRS Plan 2		Hybrid Retirement Plan	
Cost-of-Living (COLA) in (Continued)	Adjustment in Retirement	Cost-of-Living (COLA) in (Continued)	Adjustment in Retirement	Cost-of-Living (COLA) in (Continued)	Adjustment in Retirement
<u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:		<u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1.		<u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.	
<ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 					

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
Disability Coverage	Disability Coverage	Disability Coverage
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service regardless of when it was earned, purchased or granted.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service regardless of when it was earned, purchased or granted.	Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.
Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.	Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.	State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.
VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP and VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

VRS Plan 1	VRS Plan 2	Hybrid Retirement Plan
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as VRS Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1. <u>Defined Contribution Component:</u> Not applicable.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Town elected to not phase in the increase, but rather provided a 5% salary increase to all employees on July 1, 2012. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was 10.01%, exclusive of the employees' share, of annual covered payroll.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

C. Annual Pension Cost (APC)

For fiscal year 2014, the Town's annual pension cost of \$2,400,686 was equal to the Town's required and actual contributions.

Three-year trend information for the Town is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 1,782,862	100%	\$ -
June 30, 2013	2,392,728	100%	-
June 30, 2014	2,400,686	100%	-

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 81.02% funded. The actuarial accrued liability for benefits was \$63,665,235 and the actuarial value of assets was \$51,579,329, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$12,085,906. The covered payroll (annual payroll of active employees covered by the plan) was \$16,017,698, and the ratio of the UAAL to the covered payroll was 75.45%.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Defined Contribution Pension Plan

Police Retirement Plan:

Plan Description

The Town of Herndon Police Supplemental Retirement Plan (Plan) is a defined contribution plan established by the town to provide retirement benefits, supplemental to VRS, for town police officers. The Plan is administered by the town. The town contributes an amount equal to three percent of the officer's wages; the officers make no contribution. The Plan was established by town Council and any amendments to the plan must be approved by the Council. The Plan does not issue a stand-alone financial report.

The town's police officers are enrolled in the Law Enforcement Officers retirement program within the Virginia Retirement System. The police officers are provided benefits equivalent to those provided for State police officers as set out in Section 51.1-138 of the *Code of Virginia*.

The town's payroll for employees covered by the Plan for the year ended June 30, 2014 was \$5,517,584, which was 31% of the total town payroll of \$17,589,036. There were 77 participants in the Plan at June 30, 2014. The Plan has eight distribution options available to the officers upon retirement, separation from service, death, disability, or termination of the Plan. Town contributions recorded as pension expenditure totaled \$137,943 for the fiscal year ended June 30, 2014. Data concerning the value of vested and nonvested benefits as of June 30, 2014 is as follows:

Vested benefits	\$ 2,963,112
Nonvested benefits	94,615
	<u>\$ 3,057,727</u>

Vesting

Contributions by the town will vest to the benefit of the officer for which they are made according to the following schedule:

Years of Service as Herndon Police Officer	Vested Percentage
Fewer than 3 years	None
3 years but fewer than 4	20
4 years but fewer than 5	40
5 years but fewer than 6	60
6 years but fewer than 7	80
7 years or more	100

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Defined Contribution Pension Plan (Continued)

Significant Accounting Policies

Basis of Accounting: The Plan financial statements are prepared using the accrual basis of accounting.

Reporting: The Plan is accounted for as a pension trust fund of the town.

Investment Valuation and Income Recognition: Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted market price of the mutual fund, which represents the net asset value of the shares held by the Plan.

Payment of Benefits: Benefits are recorded when paid.

In addition, State statutes authorize the town to purchase other investments for pension funds that meet the standard of judgment and care set forth in the *Code of Virginia*. These additional investments may include obligations of other states, political subdivisions thereof, or mutual funds.

Concentrations

At June 30, 2014, Plan assets were comprised of mutual funds investing in stocks, bonds, guaranteed investment contracts, and U. S. government securities. The following table presents the fair value of the investments in this Plan. Single investments representing more than 5% of the Plan's net assets as of June 30, 2014 and 2013 are separately identified.

Investments at Fair Value as Determined by Quoted Market Prices	2014	2013
Mutual Funds:		
DFA U. S. Large Cap Value I	\$ 215,901	\$ -
Dimensional U. S. Large Value	-	162,572
Federated Capital Preservation	294,745	334,873
Janus Twenty Fund, Inc.	476,939	392,970
Vanguard 500 Index Signal	1,156,179	905,710
Vanguard Interim – Term Bond Index Signal	519,597	463,495
Other Investments Individually Less Than 5% of Plan Assets	394,366	316,191
	<u>\$ 3,057,727</u>	<u>\$ 2,575,811</u>

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits

A. Plan Description

Other postemployment benefits (OPEB) provided by the town include a single-employer, defined benefit retiree health insurance premium plan.

A retiree, eligible for the plan, is defined as a full-time employee who is participating in the employer's medical and dental program, and may elect coverage if the employee is (a) eligible for VRS retirement (i.e. General Employees; earlier of age 50 and 10 years of service or age 55 and 5 years of service; Hazardous Duty Employees: age 50 and 7 years of service, or (b) disabled employees who qualify for VRS disability (no age or service requirement in VRS). The plan was established by town Council and any amendments to the plan must be approved by the Council. The plan does not issue stand-alone financial reports.

B. Funding Policy

The town Council establishes employer contribution rates for their respective plan participants. The Council has chosen to fund the healthcare benefits on a pay-as-you-go basis.

C. Annual OPEB Cost and Net OPEB Obligation

In July 2012, the town had an actuarial valuation performed of postemployment benefits. The annual cost of OPEB under GASB Statement No. 45 is called the annual required contribution or ARC. The pay-as-you-go cost for OPEB benefits for the town's plan is \$202,900 and the annual benefit cost is \$564,100. The percentage of annual OPEB cost contributed is 36.00%.

GASB Statement No. 45 does not require prefunding of OPEB liabilities and the town has elected not to prefund OPEB liabilities at this time. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in the financial statements when the liability is not prefunded. At June 30, 2014, the town has recorded a liability of \$1,831,445 on the Statement of Net Position (\$1,617,401 governmental activities and \$214,044 business-type activities.)

The town is required to contribute the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years on an open basis. The following table shows the components of the annual OPEB cost for the year, the amounts contributed for the year, and the change in the net OPEB obligation:

Annual required contribution (ARC)	\$ 566,500
Interest on net OPEB obligation	58,800
Adjustment to annual required contribution	(61,200)
Annual OPEB cost	564,100
Contributions made	(202,900)
Increase in net OPEB obligation	361,200
Net OPEB obligation, beginning of year	1,470,245
Net OPEB obligation, end of year	<u>\$ 1,831,445</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

Trend Information

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net Pension Obligation
June 30, 2014	\$ 564,100	36.00%	\$ 1,831,445
June 30, 2013	541,300	29.67%	1,470,245
June 30, 2012	214,500	44.73%	1,089,545

D. Funding Status and Funding Progress

As of July 1, 2012, the most recent roll forward actuarial valuation date, the plan was not funded. The actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,557,300 for the town's plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan are compared with past expectations and new estimates are made for the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The following table shows the funding status:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
July 1, 2012	\$ -	\$ 5,557,300	\$ 5,557,300	0.00%	\$ 15,064,805	36.89%
July 1, 2010	-	2,033,900	2,033,900	0.00%	15,625,249	13.02%
July 1, 2008	-	5,284,000	5,284,000	0.00%	14,781,700	35.75%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 10. Other Postemployment Benefits (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions include a four percent rate of return, an inflation rate of two and one-half percent, assumed salary scale increase of two and one-half percent, and an annual healthcare cost trend rate of ten percent initially, reduced by one percent decrements to an ultimate rate of five percent. The unfunded liability is amortized over a period of 30 years based on a level percent of payroll method on an open basis.

Note 11. Interfund Receivables and Payables

Interfund balances as of June 30, 2014 are as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise: Chestnut Grove Cemetery	\$ 139,315
	Total	<u>\$ 139,315</u>

Interfund receivables are recorded to disclose interfund loan balances in the payable funds due at year end.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 12. Interfund Transfers

A summary of interfund transfer activity is presented as follows:

	General Fund	Nonmajor Governmental Fund	Chestnut Grove Cemetery Fund	Total Transferred In
Transfer To Fund:				
Primary government:				
Governmental activities:				
Capital Projects Fund	\$ 794,500	\$ -	\$ -	\$ 794,500
Nonmajor Governmental Fund	200,000	-	53,574	253,574
Business-type activities:				
Chestnut Grove Cemetery Fund	-	25,885	-	25,885
Downtown Parking Fund	2,137,675	-	-	2,137,675
Total Transferred Out	\$ 3,132,175	\$ 25,885	\$ 53,574	\$ 3,211,634

The transfers from the General Fund to the Capital Projects Fund, Nonmajor Government Funds, and Downtown Parking Funds are for capital project expenditures.

The transfer from the Nonmajor Government Fund to the Chestnut Grove Cemetery Fund is for interest income.

The transfer from the Chestnut Grove Cemetery Fund to the Nonmajor Government Fund is for cemetery site sales.

Note 13. Surety Bonds

The town maintains surety bonding with Virginia Municipal Liability Pool as follows:

Official's Name	Title of Official	Amount of Surety Bond
Lisa C. Merkel	Mayor	\$ 250,000
Arthur A. Anselene	Town Manager	250,000
Mary K. Tuohy	Director of Finance	250,000
Myra L. King	Revenue Supervisor	250,000
Diane C. Erway	Purchasing Agent	250,000
Cindy S. Roeder	Director of Parks and Recreation	250,000
Elizabeth M. Gilleran	Director of Community Development	250,000
Robert B. Boxer	Director of Public Works	250,000
Maggie A. DeBoard	Chief of Police	250,000
William H. Ashton, III	Director of Information Technology	250,000
Linda A. Simmons	Director of Human Resources	250,000
Gene A. Fleming	Director of Golf	250,000

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 14. Contingency

Federal and State-Assisted Programs

The town has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Note 15. Commitments and Subsequent Event

The town was contacted by the Environmental Protection Agency (EPA) in November 2007 concerning its investigation of a release, or threat of release, of hazardous substances, pollutants or containments into the environment at the Hidden Lane Landfill in Loudoun County, Virginia. The town has furnished all information and documents in relation to any town use of this landfill between 1971 and 1983 to the EPA. The EPA's investigation was still on-going at June 30, 2014 and no indication of potential town liability has been determined.

In October 2014, the town issued refunding bonds in the amount of \$5,221,000 which advance refunded the callable portions of the 2005 and 2007 general obligation bonds and paid off the outstanding balance of the 2009 general obligation note. Combined net present value savings from the refunding was approximately \$424,000 or 9.9% of refunded par.

In October 2014, the town awarded the construction contract for the Station Street Improvements Project for \$1,150,000 (with a contingency of \$175,000).

Note 16. Risk Management

The town 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 others; and natural disasters. To reduce insurance costs and the need for self-insurance, the town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. The town is not self-insured.

The town has coverage with the Virginia Municipal League Insurance Program (the "Pool") for all insurable risks identified by the town. Each Pool member jointly and severally agrees to assume, pay and discharge any liability. The town pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Pool and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The town contributes to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 17. Restatement

Change in Accounting

In accordance with the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the town removed debt issuance costs, previously recognized as amortizable assets, as if they had been recognized as expense in the period for which they had been incurred. The beginning net positions in the Proprietary Funds have been restated to reflect the expense that was previously reported as assets in prior years. In addition, the beginning net positions for the Governmental Activities and Business-Type Activities have been restated to reflect this change in the entity-wide statements for fiscal year ended June 30, 2013.

	Golf Course Fund	Chestnut Grove Cemetery Fund
Net position, June 30, 2013, as previously reported	\$ 3,532,570	\$ 1,040,047
Effect of write-off of debt issue costs	(23,644)	(35,807)
Net position, June 30, 2013, as restated	<u>\$ 3,508,296</u>	<u>\$ 1,004,240</u>
	Total Proprietary Funds	Business- Type Activities
Net position, June 30, 2013, as previously reported	\$ 30,115,815	\$ 30,115,815
Effect of write-off of debt issue costs	(59,451)	(59,451)
Net position, June 30, 2013, as restated	<u>\$ 30,056,364</u>	<u>\$ 30,056,364</u>
	Governmental Activities	
Net position, June 30, 2013, as previously reported	\$ 83,912,347	
Effect of write-off of debt issue costs	(209,665)	
Net position, June 30, 2013, as restated	<u>\$ 83,702,682</u>	

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 18. Pending GASB Statements

At June 30, 2014, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the town. The statements which might impact the town are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an amendment of GASB Statement No. 68*, requires a state or local government employer (or nonemployer contributing entity in a special funding situation), to recognize a net pension liability measured as of a date (the measurement date), no earlier than the end of its prior fiscal year. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

The town has not determined the financial reporting effect that any of these statements will have upon the town.



www.herndon-va.gov

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FUNDING PROGRESS - VIRGINIA RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2013	\$ 51,579,329	\$ 63,665,235	\$ 12,085,906	81.02%	\$ 16,017,698	75.45%
June 30, 2012	48,632,834	61,245,618	12,612,784	79.41%	14,976,236	84.22%
June 30, 2011	47,702,288	57,592,615	9,890,327	82.83%	14,576,815	67.85%

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
July 1, 2012	\$ -	\$ 5,557,300	\$ 5,557,300	0.00%	\$ 15,064,805	36.89%
July 1, 2010	-	2,033,900	2,033,900	0.00%	15,625,249	13.02%
July 1, 2008	-	5,284,000	5,284,000	0.00%	14,781,700	35.75%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OTHER POSTEMPLOYMENT BENEFITS

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2014	\$ 566,500	35.82%
2013	543,100	29.57%
2012	216,100	44.40%



www.herndon-va.gov

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Fund

Special revenue funds are used to account for specific revenues that are legally committed by legislative imposition by the Herndon town Council to expenditure for particular purposes. The town's special revenue fund is the Chestnut Grove Cemetery Perpetual Care Fund.

Capital Projects Fund

Capital projects funds are generally used to account for the acquisition and construction of major capital projects other than those financed by proprietary funds and trust funds. The Information Systems Improvement Fund accounts for the town's acquisition of telecommunications equipment, computer hardware and software and other automated systems.

TOWN OF HERNDON, VIRGINIA

Exhibit B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Special Revenue	Capital Projects	Total
	Chestnut	Information	Nonmajor
	Grove Cemetery	Systems	Governmental
	Perpetual	Improvement	Funds
	Care Fund	Fund	
ASSETS			
Cash, cash equivalents and temporary cash investments	\$ 1,491,405	\$ 161,658	\$ 1,653,063
Accrued interest	6,551	-	6,551
Total assets	\$ 1,497,956	\$ 161,658	\$ 1,659,614
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 103,997	\$ 103,997
Fund balances:			
Committed to:			
Cemetery perpetual care	1,497,956	-	1,497,956
Assigned:			
Subsequent years' expenditures for			
Information Systems Improvement Fund	-	57,661	57,661
Total fund balances	1,497,956	57,661	1,555,617
Total liabilities and fund balances	\$ 1,497,956	\$ 161,658	\$ 1,659,614

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2014**

	Special Revenue Chestnut Grove Cemetery Perpetual Care Fund	Capital Projects Information Systems Improvement Fund	Total Nonmajor Governmental Funds
Revenues:			
Revenue from local sources:			
Use of money and property	\$ 25,885	\$ -	\$ 25,885
Total revenues	25,885	-	25,885
Expenditures:			
Capital outlay	-	260,334	260,334
Revenues over (under) expenditures	25,885	(260,334)	(234,449)
Other financing sources (uses):			
Transfers in	53,574	200,000	253,574
Transfers out	(25,885)	-	(25,885)
Total other financing sources, net	27,689	200,000	227,689
Net change in fund balances	53,574	(60,334)	(6,760)
Fund balances, July 1	1,444,382	117,995	1,562,377
Fund balances, June 30	\$ 1,497,956	\$ 57,661	\$ 1,555,617



www.herndon-va.gov

SUPPLEMENTAL SCHEDULES

TOWN OF HERNDON, VIRGINIA

Exhibit B-3

**GENERAL FUND
BALANCE SHEET
June 30, 2014
(With Comparative Amounts for 2013)**

	2014	2013
ASSETS		
Cash, cash equivalents and temporary cash investments	\$ 13,928,581	\$ 12,170,785
Receivables (net of allowance for doubtful accounts):		
Property taxes	5,404,305	5,188,730
Accounts and other services	620,675	610,959
Accrued interest	88,560	64,316
Due from other governments	752,180	693,208
Inventories	140,943	149,721
Prepaid costs	39,145	51,580
Advances to other funds	139,315	195,480
Total assets	\$ 21,113,704	\$ 19,124,779
LIABILITIES		
Liabilities:		
Accounts payable	\$ 596,377	\$ 484,786
Accrued payroll	896,846	991,862
Accrued liabilities - other	1,607,457	1,370,316
Unearned revenue	477,764	5,383,591
Deposits	1,559,918	1,510,083
Total liabilities	5,138,362	9,740,638
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues - property taxes	5,396,656	-
Fund Balances:		
Nonspendable:		
Inventories	140,943	149,721
Prepaid costs	39,145	51,580
Loan to Capital Projects Fund	-	43,500
Loan to Cemetery Fund	139,315	151,980
Committed:		
Revenue stabilization	600,000	400,000
Assigned to:		
Operating materials, services and supplies	280,342	308,941
Capital equipment and vehicles	370,195	440,311
Subsequent years' expenditures	844,237	728,924
Unassigned	8,164,509	7,109,184
Total fund balances	10,578,686	9,384,141
Total liabilities, deferred inflows of resources and fund balances	\$ 21,113,704	\$ 19,124,779

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 1GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 10,192,900	\$ 10,192,900	\$ 10,219,682	\$ 26,782
Elderly tax relief exemption	-	-	(80,936)	(80,936)
Public service corporation taxes	315,000	315,000	307,154	(7,846)
Penalties and interest	50,000	50,000	54,339	4,339
Total general property taxes	10,557,900	10,557,900	10,500,239	(57,661)
Other local taxes:				
Consumer utility tax	788,000	788,000	799,162	11,162
Right of way use fees	181,000	181,000	172,986	(8,014)
Cigarette tax	329,700	329,700	337,783	8,083
Transient occupancy tax	1,995,000	1,995,000	2,091,900	96,900
Bank stock tax	250,000	250,000	285,490	35,490
Cable T.V. franchise fees	178,800	178,800	194,891	16,091
Business licenses tax	3,783,000	3,783,000	4,750,718	967,718
Utility consumption tax	88,000	88,000	96,631	8,631
Motor vehicle licenses	373,700	373,700	371,325	(2,375)
Local sales tax	1,569,600	1,569,600	1,703,517	133,917
Meals tax	1,958,400	1,958,400	2,046,307	87,907
Total other local taxes	11,495,200	11,495,200	12,850,710	1,355,510
Permits, privilege fees and regulatory licenses:				
Planning fees	60,500	60,500	135,234	74,734
Building inspection fees and permits	227,700	227,700	385,750	158,050
Right of way permit fees	14,000	14,000	11,711	(2,289)
Total permits, privilege fees and regulatory licenses	302,200	302,200	532,695	230,495
Fines and forfeitures:				
Court fines and costs	86,000	86,000	74,567	(11,433)
Court fees - Fairfax County	451,300	451,300	540,606	89,306
Court maintenance fees	14,100	14,100	13,315	(785)
Zoning fines	2,500	2,500	4,003	1,503
Total fines and forfeitures	553,900	553,900	632,491	78,591

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 180,000	\$ 180,000	\$ 346,948	\$ 166,948
Rental income	506,000	506,000	528,288	22,288
Total use of money and property	686,000	686,000	875,236	189,236
Charges for services:				
Franchise lease	85,400	85,400	85,328	(72)
Commercial refuse collection	10,100	10,100	10,466	366
Recycling collection	98,400	98,400	99,123	723
Recreation program fees	1,718,400	1,718,400	1,628,911	(89,489)
Admission fees	473,800	473,800	419,356	(54,444)
Park operation	8,600	8,600	12,438	3,838
Herndon festival	315,000	315,000	374,558	59,558
Concession	22,300	22,300	19,601	(2,699)
Rental income - parks & recreation	84,600	84,600	97,550	12,950
Tennis/multi-use facility	195,400	195,400	210,039	14,639
Sale of recyclable materials	1,000	1,000	34,762	33,762
Quasi - external revenue - charges for administration, personnel and other services:				
Chestnut Grove Cemetery fund	15,700	15,700	15,700	-
Golf course fund	32,300	32,300	32,300	-
Water and sewer fund	485,200	485,200	485,200	-
Total charges for services	3,546,200	3,546,200	3,525,332	(20,868)
Miscellaneous	30,000	30,000	33,485	3,485
Total revenue from local sources	27,171,400	27,171,400	28,950,188	1,778,788
Intergovernmental:				
County of Fairfax:				
Pro-rata share of stormwater district tax collections	187,000	187,000	193,996	6,996
Contribution toward tourism and economic development	40,000	40,000	40,000	-
Total from County of Fairfax	227,000	227,000	233,996	6,996

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Intergovernmental: (Continued)				
Other Local Governments:				
NOVA regional Gang Task Force grant	\$ 16,000	\$ 16,000	\$ 25,976	\$ 9,976
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	548,700	548,700	548,704	4
Communications sales and use tax	1,768,900	1,768,900	1,733,297	(35,603)
Vehicle rental taxes	14,000	14,000	10,492	(3,508)
Total non-categorical aid	2,331,600	2,331,600	2,292,493	(39,107)
Categorical aid:				
Fire fund program	62,200	62,200	69,953	7,753
Litter control grant	6,700	6,700	5,955	(745)
Financial assistance for the arts	5,000	5,000	-	(5,000)
Dept. of Criminal Justice Service - NOVA regional ICAC grant	25,000	25,000	45,897	20,897
Street and highway maintenance allocation	1,624,700	1,624,700	1,664,252	39,552
Total categorical aid	1,723,600	1,723,600	1,786,057	62,457
Total from the Commonwealth	4,055,200	4,055,200	4,078,550	23,350
Federal government:				
Categorical aid:				
Dept. of Transportation/State & Community Highway Safety grant	20,000	20,000	18,273	(1,727)
Bureau of Justice Assist./ JAG grant	-	-	5,406	5,406
Dept. of Transportation/ National Highway Safety Administration - Selective Enforcement grant	45,000	45,000	17,773	(27,227)
CMAQ grant - alternative fuel vehicles	-	-	161,770	161,770
Dept. of Housing & Urban Dev./Bilingual grant	90,800	90,800	90,000	(800)
US Dept. of Justice/ Crminial Divison Office Equitable Sharing Program	-	-	89,905	89,905
Total from the Federal government	155,800	155,800	383,127	227,327
Total intergovernmental revenue	4,454,000	4,454,000	4,721,649	267,649
Total General Fund revenues	\$ 31,625,400	\$ 31,625,400	\$ 33,671,837	\$ 2,046,437

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 1GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Legislative:				
Personnel services	\$ 723,100	\$ 409,300	\$ 405,484	\$ (3,816)
Operations and maintenance	217,000	217,000	216,841	(159)
Total legislative	940,100	626,300	622,325	(3,975)
Administration:				
Public information:				
Personnel services	283,500	269,000	273,210	4,210
Operations and maintenance	144,900	297,007	154,960	(142,047)
Capital outlay	-	916	916	-
	428,400	566,923	429,086	(137,837)
Town manager:				
Personnel services	341,700	347,900	346,827	(1,073)
Operations and maintenance	19,400	41,745	18,174	(23,571)
	361,100	389,645	365,001	(24,644)
Human resources:				
Personnel services	408,300	416,600	395,266	(21,334)
Operations and maintenance	106,000	147,320	115,798	(31,522)
	514,300	563,920	511,064	(52,856)
Information services:				
Personnel services	697,600	708,600	708,620	20
Operations and maintenance	283,200	288,803	264,169	(24,634)
Capital outlay	57,500	65,620	41,235	(24,385)
	1,038,300	1,063,023	1,014,024	(48,999)
Total administration	2,342,100	2,583,511	2,319,175	(264,336)
Town attorney:				
Personnel services	321,600	329,700	318,685	(11,015)
Operations and maintenance	159,400	223,778	216,948	(6,830)
Total town attorney	481,000	553,478	535,633	(17,845)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5

Page 2

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Parks and recreation:				
Administration:				
Personnel services	\$ 419,300	\$ 425,400	\$ 420,712	\$ (4,688)
Operations and maintenance	104,000	101,200	93,817	(7,383)
	523,300	526,600	514,529	(12,071)
Recreation programs:				
Personnel services	820,200	826,200	775,988	(50,212)
Operations and maintenance	649,900	670,765	665,723	(5,042)
	1,470,100	1,496,965	1,441,711	(55,254)
Community center operations:				
Personnel services	853,400	859,500	874,978	15,478
Operations and maintenance	217,300	223,761	202,437	(21,324)
Capital outlay	-	30,000	28,061	(1,939)
	1,070,700	1,113,261	1,105,476	(7,785)
Aquatics programs and operations:				
Personnel services	608,800	613,800	572,555	(41,245)
Operations and maintenance	147,200	153,062	124,290	(28,772)
Capital outlay	56,000	60,366	60,274	(92)
	812,000	827,228	757,119	(70,109)
Park operations and development:				
Personnel services	69,400	70,200	62,563	(7,637)
Operations and maintenance	78,400	80,946	73,220	(7,726)
Capital outlay	30,000	31,150	31,138	(12)
	177,800	182,296	166,921	(15,375)
Total parks and recreation	4,053,900	4,146,350	3,985,756	(160,594)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 3

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Finance:				
Administration:				
Personnel services	\$ 239,600	\$ 242,900	\$ 239,018	\$ (3,882)
Operations and maintenance	260,300	257,890	227,061	(30,829)
	499,900	500,790	466,079	(34,711)
Billing and accounting:				
Personnel services	450,700	456,600	445,017	(11,583)
Operations and maintenance	18,100	18,460	14,161	(4,299)
	468,800	475,060	459,178	(15,882)
Revenue:				
Personnel services	198,700	201,700	203,725	2,025
Operations and maintenance	37,800	38,080	42,432	4,352
Capital outlay	-	2,410	2,404	(6)
	236,500	242,190	248,561	6,371
Procurement:				
Personnel services	89,000	90,300	89,507	(793)
Operations and maintenance	4,300	4,300	3,715	(585)
	93,300	94,600	93,222	(1,378)
Total finance	1,298,500	1,312,640	1,267,040	(45,600)
Community development:				
Administration:				
Personnel services	1,427,900	1,416,600	1,395,600	(21,000)
Operations and maintenance	168,700	280,271	96,119	(184,152)
Capital outlay	-	1,300	-	(1,300)
	1,596,600	1,698,171	1,491,719	(206,452)
Community inspections:				
Personnel services	465,500	426,790	391,829	(34,961)
Operations and maintenance	11,000	11,000	7,804	(3,196)
	476,500	437,790	399,633	(38,157)
Total community development	2,073,100	2,135,961	1,891,352	(244,609)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 4GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Police:				
Field operations:				
Personnel services	\$ 5,184,600	\$ 5,212,600	\$ 5,091,016	\$ (121,584)
Operations and maintenance	167,000	180,100	220,940	40,840
Capital outlay	203,500	228,063	213,002	(15,061)
	5,555,100	5,620,763	5,524,958	(95,805)
Support services:				
Personnel services	3,073,000	3,107,300	3,126,251	18,951
Operations and maintenance	456,200	484,124	443,735	(40,389)
Capital outlay	-	35,621	2,948	(32,673)
	3,529,200	3,627,045	3,572,934	(54,111)
Total police	9,084,300	9,247,808	9,097,892	(149,916)
Public Works:				
Administration:				
Personnel services	781,400	794,200	790,229	(3,971)
Operations and maintenance	40,500	39,542	35,931	(3,611)
	821,900	833,742	826,160	(7,582)
Engineering:				
Personnel services	492,800	502,600	469,231	(33,369)
Operations and maintenance	56,200	144,716	94,341	(50,375)
	549,000	647,316	563,572	(83,744)
Program management:				
Personnel services	252,400	257,600	243,974	(13,626)
Operations and maintenance	5,600	12,367	1,636	(10,731)
	258,000	269,967	245,610	(24,357)
Building inspections:				
Personnel services	471,400	478,500	467,805	(10,695)
Operations and maintenance	79,400	79,606	74,092	(5,514)
	550,800	558,106	541,897	(16,209)
Building maintenance:				
Personnel services	554,200	564,700	549,631	(15,069)
Operations and maintenance	827,900	855,877	834,967	(20,910)
Capital outlay	-	41,000	26,004	(14,996)
	1,382,100	1,461,577	1,410,602	(50,975)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 5GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over (Under)
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 591,200	\$ 599,400	\$ 558,675	\$ (40,725)
Operations and maintenance	176,200	179,386	66,456	(112,930)
Capital outlay	38,000	38,000	30,654	(7,346)
	805,400	816,786	655,785	(161,001)
Street maintenance:				
Personnel services	652,000	663,000	759,786	96,786
Operations and maintenance	504,000	693,738	930,261	236,523
Capital outlay	421,000	582,770	323,850	(258,920)
	1,577,000	1,939,508	2,013,897	74,389
Refuse/recycling:				
Personnel services	920,000	937,200	971,000	33,800
Operations and maintenance	487,700	494,518	436,681	(57,837)
Capital outlay	-	225,975	220,475	(5,500)
	1,407,700	1,657,693	1,628,156	(29,537)
Vehicle and equipment maintenance:				
Personnel services	777,600	769,270	700,568	(68,702)
Operations and maintenance	422,500	422,710	281,199	(141,511)
Capital outlay	51,800	116,800	41,272	(75,528)
	1,251,900	1,308,780	1,023,039	(285,741)
Traffic engineering:				
Personnel services	226,200	229,400	165,567	(63,833)
Operations and maintenance	113,600	126,931	119,797	(7,134)
Capital outlay	13,000	19,000	3,000	(16,000)
	352,800	375,331	288,364	(86,967)
Right of way inspections:				
Personnel services	253,700	257,300	249,773	(7,527)
Operations and maintenance	10,200	10,200	6,160	(4,040)
	263,900	267,500	255,933	(11,567)
Total public works	9,220,500	10,136,306	9,453,015	(683,291)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5

Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Grants:				
Operations	\$ -	\$ -	\$ 102,305	\$ 102,305
Total grants	-	-	102,305	102,305
Debt service:				
Principal	1,540,700	1,540,700	1,540,720	20
Interest and fiscal charges	485,500	485,500	481,073	(4,427)
Total debt service	2,026,200	2,026,200	2,021,793	(4,407)
Total General Fund expenditures	\$ 31,519,700	\$ 32,768,554	\$ 31,296,286	\$ (1,472,268)

TOWN OF HERNDON, VIRGINIA

Exhibit B-6

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND AND INFORMATION SYSTEMS IMPROVEMENT FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Use of money and property	\$ 200,000	\$ 200,000	\$ 210,015	\$ 10,015
Miscellaneous	150,000	150,000	-	(150,000)
Intergovernmental	2,160,000	5,245,000	616,586	(4,628,414)
Total revenues	2,510,000	5,595,000	826,601	(4,768,399)
Capital Outlay:				
Parks and recreation	200,000	695,929	427,239	(268,690)
Community development	-	23,534	-	(23,534)
Public works:				
Buildings and grounds	275,000	1,134,244	333,055	(801,189)
Streets and sidewalks	3,060,000	14,312,096	1,072,284	(13,239,812)
Other infrastructure	440,000	1,540,960	149,250	(1,391,710)
Information systems improvements	290,000	1,161,677	260,334	(901,343)
Total expenditures	4,265,000	18,868,440	2,242,162	(16,626,278)
Revenues under expenditures	(1,755,000)	(13,273,440)	(1,415,561)	11,857,879
Other financing sources:				
Issuance of debt	965,000	965,000	-	(965,000)
Transfers in	710,000	880,000	994,500	114,500
Total other financing sources	1,675,000	1,845,000	994,500	(850,500)
Net change in fund balance	(80,000)	(11,428,440)	(421,061)	11,007,379
Fund balance, July 1	80,000	11,428,440	8,623,145	(2,805,295)
Fund balance, June 30	\$ -	\$ -	\$ 8,202,084	\$ 8,202,084

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 1**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Folly Lick Watershed:				
Builder contributions	\$ 413,140	\$ 413,140	\$ -	\$ 413,140
Transfer from General Fund	753,330	753,330	-	753,330
Fairfax County grant	463,102	463,102	-	463,102
Interest on investments	642,907	642,907	-	642,907
Reallocation of remaining authorizations	(1,886,756)	(1,878,417)	(8,339)	(1,886,756)
Horse Pen Run Watershed:				
Builder contributions	21,581	21,581	-	21,581
Interest on investments	20,124	20,124	-	20,124
Storm Drain Easement/Construction:				
Builder contributions	14,171	14,171	-	14,171
Federal/state grants	97,500	97,500	-	97,500
Proceeds from bond issue	197,500	197,500	-	197,500
Transfer from General Fund	1,585,200	1,550,200	35,000	1,585,200
Interest on investments	220,267	217,055	3,212	220,267
Reallocation of remaining authorizations	64,872	172,796	(107,924)	64,872
Huntmar-Spring/Van Buren Street Improvements:				
Builder bond default	18,750	18,750	-	18,750
Interest on investments	27,308	27,308	-	27,308
Reallocation of remaining authorizations	(25,677)	(25,677)	-	(25,677)

TOWN OF HERNDON, VIRGINIA

Exhibit B-7

Page 2

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Traffic Signals and Automated Control Systems:				
Builder contributions	\$ 6,250	\$ 6,250	\$ -	\$ 6,250
Federal/state grants	72,968	72,968	-	72,968
Transfer from General Fund	572,294	572,294	-	572,294
Interest on investments	98,904	98,539	365	98,904
Reallocation of remaining authorizations	270,443	270,808	(365)	270,443
Street Light Installation:				
Transfer from General Fund	376,000	376,000	-	376,000
Interest on investments	96,126	92,983	3,143	96,126
Reallocation of remaining authorizations	82,918	(133,126)	216,044	82,918
Ball Field Improvements/Recreation Facilities:				
Builder contributions	111,500	111,500	-	111,500
Donations	12,500	12,500	-	12,500
Fairfax County grant	12,500	12,500	-	12,500
Transfer from General Fund	486,214	336,214	150,000	486,214
Interest on investments	99,547	97,444	2,103	99,547
Reallocation of remaining authorizations	(242,783)	(240,772)	(2,011)	(242,783)
Herndon Community Center - Phase IV/ Fixtures:				
Proceeds from bond issue	4,800,000	4,800,000	-	4,800,000
Premium/(discount) on debt, net	(4,368)	(4,368)	-	(4,368)
Transfer from General Fund	1,290,000	1,290,000	-	1,290,000
Interest on investment	229,027	229,027	-	229,027
Reallocation of remaining authorizations	(1,338,909)	(1,335,068)	(3,841)	(1,338,909)

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 3**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUE AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Locust Street Improvements:				
Builder contributions	\$ 61,083	\$ 61,083	\$ -	\$ 61,083
Interest on investments	59,937	59,221	716	59,937
Reallocation of remaining authorizations	(75,048)	(74,332)	(716)	(75,048)
Downtown Street Improvements:				
Federal/state grants	767,828	736,659	31,169	767,828
Proceeds from bond issue	787,032	787,032	-	787,032
Transfer from General Fund	1,766,968	1,766,968	-	1,766,968
Interest on investments	522,649	505,535	17,114	522,649
Reallocation of remaining authorizations	(1,530,296)	(1,503,118)	(27,178)	(1,530,296)
Tennis/Multi-Use Activity Center:				
Transfer from General Fund	775,000	731,500	43,500	775,000
Interest on investments	200,440	198,265	2,175	200,440
Reallocation of remaining authorizations	(429,191)	(383,516)	(45,675)	(429,191)
Gateway Entrances:				
Transfer from General Fund	187,000	112,000	75,000	187,000
Interest on investments	37,972	35,525	2,447	37,972
Reallocation of remaining authorizations	(54,160)	(56,969)	2,809	(54,160)

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 4**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Trails and Sidewalks:				
Federal/state/ county grants	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
Transfer from General Fund	179,000	179,000	-	179,000
Interest on investments	53,413	53,413	-	53,413
Reallocation of remaining authorizations	577,309	135,901	441,408	577,309
Town Shop Improvements:				
Proceeds from bond issue	1,130,000	1,130,000	-	1,130,000
Transfer from General Fund	85,000	85,000	-	85,000
Interest on investments	56,362	56,362	-	56,362
Reallocation of remaining authorizations	(114,173)	(85,593)	(28,580)	(114,173)
Nash Street Improvements:				
Builders contributions	5,000	5,000	-	5,000
Transfer from General Fund	8,000	8,000	-	8,000
Interest on investments	8,516	8,516	-	8,516
Reallocation of remaining authorizations	(10,076)	(10,076)	-	(10,076)
Bus Stop Shelters:				
Transfer from General Fund	30,000	30,000	-	30,000
Interest on investments	25,224	25,224	-	25,224
Reallocation of remaining authorizations	41,821	41,821	-	41,821

TOWN OF HERNDON, VIRGINIA

Exhibit B-7
Page 5

CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
East Elden Street Interim Improvements:				
Transfer from General Fund	\$ 370,000	\$ 370,000	\$ -	\$ 370,000
Interest on investments	69,980	69,296	684	69,980
Reallocation of remaining authorizations	(46,108)	(46,211)	103	(46,108)
Town Depot Improvements:				
Transfer from General Fund	70,000	70,000	-	70,000
Interest on investments	60,329	59,618	711	60,329
Reallocation of remaining authorizations	(40,457)	(39,346)	(1,111)	(40,457)
Town Hall Rehabilitation:				
Transfer from General Fund	124,000	124,000	-	124,000
Interest on investments	49,379	49,379	-	49,379
Reallocation of remaining authorizations	(58,359)	(76,608)	18,249	(58,359)
HMC Computer Equipment Room Renovations:				
Interest on investments	9,821	9,457	364	9,821
Reallocation of remaining authorizations	205,060	205,424	(364)	205,060

TOWN OF HERNDON, VIRGINIA

Exhibit B-7

Page 6

CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Elden Street/Center Street Intersection Improvements:				
Federal/state grants	\$ 11,107	\$ -	\$ 11,107	\$ 11,107
Proceeds from bond issue	50,000	50,000	-	50,000
Transfer from General Fund	50,000	50,000	-	50,000
Interest on investments	37,241	37,241	-	37,241
Reallocation of remaining authorizations	(111,575)	(37,241)	(74,334)	(111,575)
W & OD Trail Enhancements (CMAQ grant):				
Federal/state grants	77,084	41,191	35,893	77,084
Interest on investments	67,988	64,504	3,484	67,988
Reallocation of remaining authorizations	191,124	238,268	(47,144)	191,124
Station Street Improvements:				
Federal/state grants	335,661	184,191	151,470	335,661
Proceeds from bond issue	1,003,000	1,003,000	-	1,003,000
Transfer from General Fund	140,000	140,000	-	140,000
Interest on investments	179,020	144,579	34,441	179,020
Donated property	11,000	11,000	-	11,000
Reallocation of remaining authorizations	1,434,440	531,532	902,908	1,434,440
Metro Rail/Worldgate Area Planning:				
Transfer from General Fund	300,000	300,000	-	300,000
Interest on investments	7,458	7,091	367	7,458
Reallocation of remaining authorizations	13,564	13,931	(367)	13,564

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 7**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Stream Bank Stabilization:				
Transfer from General Fund	\$ 30,000	\$ 30,000	\$ -	\$ 30,000
Interest on investments	2,099	2,099	-	2,099
Reallocation of remaining authorizations	(2,099)	(2,099)	-	(2,099)
Park Avenue and Monroe Street Intersection:				
Federal/state grants	63,350	57,083	6,267	63,350
Proceeds from bond issue	742,000	742,000	-	742,000
Transfer from General Fund	60,000	60,000	-	60,000
Interest on investments	129,156	95,611	33,545	129,156
Reallocation of remaining authorizations	1,297,305	737,117	560,188	1,297,305
Herndon Parkway Intersections Studies (VDOT grant):				
Federal/state grants	135,878	71,269	64,609	135,878
Interest on investments	216,416	164,284	52,132	216,416
Reallocation of remaining authorizations	3,129,885	2,122,227	1,007,658	3,129,885
Improvements to 397 Herndon Parkway:				
Interest on investments	6,348	6,348	-	6,348
Reallocation of remaining authorizations	24,730	80,058	(55,328)	24,730

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 8**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
W & OD Trail Lighting:				
Federal/state grants	\$ 200,000	\$ -	\$ 200,000	\$ 200,000
Builder contributions	130,000	130,000	-	130,000
Interest on investments	8,009	7,688	321	8,009
Reallocation of remaining authorizations	32,146	104,602	(72,456)	32,146
Downtown Utility Relocation:				
Federal/state grants	955,575	955,575	-	955,575
Transfer from General Fund	450,000	300,000	150,000	450,000
Interest on investments	11,665	6,223	5,442	11,665
Reallocation of remaining authorizations	(126,769)	(19,866)	(106,903)	(126,769)
Dranesville Road Improvements:				
Federal/state grants	342,053	342,053	-	342,053
Proceeds from bond issue	200,000	200,000	-	200,000
Transfer from General Fund	325,000	325,000	-	325,000
Interest on investments	39,069	36,663	2,406	39,069
Reallocation of remaining authorizations	(15,308)	91,905	(107,213)	(15,308)
Haley M. Smith Park - Service Building:				
Builder contributions	40,000	40,000	-	40,000
Interest on investments	1,802	1,482	320	1,802
Reallocation of remaining authorizations	(2,202)	(1,882)	(320)	(2,202)

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 9**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Major Road Repaving:				
Federal/state grants	\$ 116,071	\$ -	\$ 116,071	\$ 116,071
Transfer from General Fund	535,600	350,600	185,000	535,600
Interest on investments	2,057	2,057	-	2,057
Reallocation of remaining authorizations	(95,859)	(68,164)	(27,695)	(95,859)
Major Building Maintenance:				
Transfer from General Fund	156,000	-	156,000	156,000
Interest on investments	6,365	695	5,670	6,365
Reallocation of remaining authorizations	107,487	11,881	95,606	107,487
Storm Water Management/ Chesapeake Bay Regulations:				
Fairfax County grant	98,000	98,000	-	98,000
Interest on investments	478	478	-	478
Reallocation of remaining authorizations	17,791	174,425	(156,634)	17,791
Vehicular & Pedestrian Access to Herndon Metro Rail Station:				
Interest on investments	26,762	905	25,857	26,762
Reallocation of remaining authorizations	1,629,273	330,130	1,299,143	1,629,273

TOWN OF HERNDON, VIRGINIA

**Exhibit B-7
Page 10**

**CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2014**

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Trails to Herndon Metro Rail Station:				
Interest on investments	\$ 1,561	\$ -	\$ 1,561	\$ 1,561
Reallocation of remaining authorizations	98,439	-	98,439	98,439
Sterling Road and Herndon Parkway Intersection Improvements:				
Interest on investments	6,751	-	6,751	6,751
Reallocation of remaining authorizations	454,267	-	454,267	454,267
Van Buren Complete Street - Spring St. to South Corporate Limits :				
Interest on investments	2,342	-	2,342	2,342
Reallocation of remaining authorizations	147,658	-	147,658	147,658
Worldgate Extension - Herndon Metro Rail Area :				
Interest on investments	2,342	-	2,342	2,342
Reallocation of remaining authorizations	147,658	-	147,658	147,658
Assigned to Subsequent Years' Expenditures:				
Transfer from Information Systems Improvement Fund	226,568	226,568	-	226,568
Miscellaneous	83,974	83,974	-	83,974
Reallocation of remaining authorizations	(5,095,110)	(577,470)	(4,517,640)	(5,095,110)
Totals	\$ 26,574,400	\$ 24,953,299	\$ 1,621,101	\$ 26,574,400

TOWN OF HERNDON, VIRGINIA

Exhibit B-8

Page 1

**CAPITAL PROJECTS FUND
SCHEDULE OF EXPENDITURES COMPARED WITH AUTHORIZATIONS
Year Ended June 30, 2014**

	Authorization	Expenditures		Total Expenditures	Remaining Authorizations
		Prior Years	Current Year		
Folly Lick Watershed	\$ 385,723	\$ 385,723	\$ -	\$ 385,723	\$ -
Horse Pen Run Watershed	41,705	36,356	-	36,356	5,349
Storm Drain Easement/Construction	2,179,510	1,935,269	38,504	1,973,773	205,737
Huntmar-Spring/Van Buren Street Improvements	20,381	1,631	-	1,631	18,750
Traffic Signals and Automated Control Systems	1,020,859	997,491	-	997,491	23,368
Street Light Installations	555,044	243,013	110,746	353,759	201,285
Ball Field Improvements/Recreation Facilities	479,478	218,656	126,119	344,775	134,703
Herndon Community Center - Phase IV/ Fixtures	4,975,750	4,971,385	4,365	4,975,750	-
Locust Street Improvements	45,972	111	-	111	45,861
Downtown Street Improvements	2,314,181	1,150,040	68,043	1,218,083	1,096,098
Tennis/Multi-Use Activity Center	546,249	546,249	-	546,249	-
Gateway Entrances	170,812	5,232	8,850	14,082	156,730
Trails and Sidewalks	859,722	197,477	25,613	223,090	636,632
Town Shop Improvements	1,157,189	1,136,879	20,310	1,157,189	-
Nash Street Improvements	11,440	6,226	-	6,226	5,214
Bus Stop Shelters	97,045	84,904	-	84,904	12,141
East Elden Street Interim Improvements	393,872	349,300	787	350,087	43,785
Town Depot Improvements	89,872	20,313	24,005	44,318	45,554
Town Hall Rehabilitation	115,020	96,771	18,249	115,020	-
HMC Computer Equipment Room Renovations	214,881	192,577	-	192,577	22,304

TOWN OF HERNDON, VIRGINIA

Exhibit B-8

Page 2

**CAPITAL PROJECTS FUND
SCHEDULE OF EXPENDITURES COMPARED WITH AUTHORIZATIONS
Year Ended June 30, 2014**

	Authorization	Expenditures		Total Expenditures	Remaining Authorizations
		Prior Years	Current Year		
Elden Street/Center Street Intersection Improvements	\$ 36,773	\$ -	\$ 25,338	\$ 25,338	\$ 11,435
W & OD Trail Enhancements (CMAQ grant)	336,196	43,963	69,110	113,073	223,123
Station Street Improvements	3,103,121	424,426	477,676	902,102	2,201,019
Metro Rail/Worldgate Area Planning	321,022	297,488	-	297,488	23,534
Stream Bank Stabilization	30,000	18,000	-	18,000	12,000
Park Avenue and Monroe Street Intersection	2,291,811	147,628	-	147,628	2,144,183
Herndon Parkway Intersections Studies (VDOT grant)	3,482,179	106,027	37,287	143,314	3,338,865
Improvements to 397 Herndon Parkway	31,078	15,573	-	15,573	15,505
W & OD Trail Lighting	370,155	48,476	301,120	349,596	20,559
Downtown Utility Relocation	1,290,471	941,932	-	941,932	348,539
Dranesville Road Improvements	890,814	693,425	49,804	743,229	147,585
Haley M. Smith Park - Service Building	39,600	19,131	-	19,131	20,469
Major Road Repaving	557,869	267,901	289,968	557,869	-
Major Building Maintenance	269,852	12,576	257,276	269,852	-
Storm Water Management/ Chesapeake Bay Regulations	116,269	98,000	-	98,000	18,269
Vehicular and Pedestrian Access to Herndon Metro Rail Station	1,656,035	-	-	-	1,656,035
Trails to Herndon Metro Rail Station	100,000	-	-	-	100,000
Sterling Road and Herndon Parkway Intersection Improvements	461,018	-	28,658	28,658	432,360
Van Buren Complete Street - Spring St. to South Corporate Limits	150,000	-	-	-	150,000
Worldgate Extension - Herndon Metro Rail Area	150,000	-	-	-	150,000
Assigned to Subsequent Years' Expenditures	(4,784,568)	738,000	-	738,000	(5,522,568)
Totals	\$ 26,574,400	\$ 16,448,149	\$ 1,981,828	\$ 18,429,977	\$ 8,144,423

TOWN OF HERNDON, VIRGINIA

Exhibit B-9

**INFORMATION SYSTEMS IMPROVEMENT FUND
SCHEDULE OF EXPENDITURES COMPARED WITH AUTHORIZATIONS
Year Ended June 30, 2014**

	Authorization	Expenditures		Total Expenditures	Remaining Authorizations
		Prior Years	Current Year		
Personal Computers, Printers and File Servers	\$ 1,616,208	\$ 1,417,811	\$ 18,652	\$ 1,436,463	\$ 179,745
WAN/I-NET and Internet Presence	1,365,966	1,068,801	88,661	1,157,462	208,504
Citizens Relationship Software	192,998	192,998	-	192,998	-
Financial/Human Resources Software Replacement	172,299	93,067	6,600	99,667	72,632
Disaster Recovery/Business Continuity Plans	78,251	78,251	-	78,251	-
Parks & Recreation Registration Software	69,832	54,587	11,342	65,929	3,903
Police Telecommunications Upgrades	144,273	-	135,079	135,079	9,194
Assigned to Subsequent Years' Expenditures/ Future Financing Needed for Authorizations	(416,317)	-	-	-	(416,317)
Totals	\$ 3,223,510	\$ 2,905,515	\$ 260,334	\$ 3,165,849	\$ 57,661

TOWN OF HERNDON, VIRGINIA

Exhibit B-10

**PROPRIETARY FUND TYPE
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
WATER AND SEWER FUND
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Sale of water	\$ 2,725,000	\$ 2,638,579	\$ (86,421)
Sewer service charges	3,285,000	3,285,055	55
Late payment charges	75,000	76,160	1,160
Sale of commodities	10,000	7,826	(2,174)
Rents and leases	445,000	446,970	1,970
Miscellaneous	30,500	11,513	(18,987)
Total operating revenues	6,570,500	6,466,103	(104,397)
Operating expenses:			
Finance	360,915	246,909	(114,006)
Water main maintenance	2,453,117	1,922,167	(530,950)
Sewer service charge	4,295,114	4,182,962	(112,152)
Contractual services	485,200	485,200	-
Nondepartmental:			
Depreciation and amortization	-	703,372	703,372
Miscellaneous	55,000	48,796	(6,204)
Total operating expenses	7,649,346	7,589,406	(59,940)
Operating loss	(1,078,846)	(1,123,303)	(44,457)
Nonoperating revenues:			
Investment earnings	325,000	431,932	106,932
Availability fees	330,000	438,140	108,140
Gain on sale of capital assets	500	16,180	15,680
Total nonoperating revenues	655,500	886,252	215,072
Change in net position	\$ (423,346)	(237,051)	\$ 186,295
Total net position, July 1		23,611,853	
Total net position, June 30		<u>\$ 23,374,802</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-11

**PROPRIETARY FUND TYPE
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
GOLF COURSE FUND
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Rents and leases	\$ 42,800	\$ 43,192	\$ 392
Greens fees	947,500	950,934	3,434
Golf cart revenue	267,000	275,394	8,394
Golf pro shop sales	66,000	69,864	3,864
Driving range fees	67,900	69,405	1,505
Miscellaneous	19,000	18,920	(80)
Total operating revenues	1,410,200	1,427,709	17,509
Operating expenses:			
Golf course operations	684,303	692,762	8,459
Golf course club house	559,685	547,930	(11,755)
Nondepartmental:			
Depreciation and amortization	-	214,894	214,894
Miscellaneous	55,100	57,465	2,365
Total operating expenses	1,299,088	1,513,051	213,963
Operating income (loss)	111,112	(85,342)	(196,454)
Nonoperating revenues (expenses):			
Investment earnings	48,500	35,152	(13,348)
Interest expense	(41,900)	(40,960)	940
Total nonoperating revenues (expenses), net	6,600	(5,808)	(12,408)
Income (loss) before capital contributions	117,712	(91,150)	(208,862)
Capital contributions	-	154,239	154,239
Change in net position	\$ 117,712	63,089	\$ (54,623)
Total net position, July 1, as restated		<u>3,508,926</u>	
Total net position, June 30		<u>\$ 3,572,015</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-12

**PROPRIETARY FUND TYPE
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
CHESTNUT GROVE CEMETERY FUND
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Cemetery sites	\$ 378,400	\$ 535,741	\$ 157,341
Interment services	156,300	177,490	21,190
Merchandise sales	124,800	93,290	(31,510)
Miscellaneous	3,500	34,172	30,672
Total operating revenues	663,000	840,693	177,693
Operating expenses:			
Cemetery operations	511,754	491,054	(20,700)
Nondepartmental:			
Depreciation and amortization	-	107,965	107,965
Miscellaneous	22,500	22,974	474
Total operating expenses	534,254	621,993	87,739
Operating income	128,746	218,700	89,954
Nonoperating revenues (expenses):			
Investment earnings	7,600	10,348	2,748
Interest expense	(87,700)	(85,843)	1,857
Total nonoperating expenses, net	(80,100)	(75,495)	4,605
Income before transfers	48,646	143,205	94,559
Transfers in	50,400	25,885	(24,515)
Transfers out	(37,800)	(53,574)	(15,774)
Change in net position	\$ 61,246	115,516	\$ 54,270
Total net position, July 1, as restated		1,004,240	
Total net position, June 30		\$ 1,119,756	

TOWN OF HERNDON, VIRGINIA

Exhibit B-13

**PROPRIETARY FUND TYPE
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL
DOWNTOWN PARKING FUND
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Miscellaneous	\$ 12,700	\$ 26,903	\$ 14,203
Total operating revenues	12,700	26,903	14,203
Operating expenses:			
Downtown parking	29,383	28,451	(932)
Depreciation and amortization	-	4,494	4,494
Total operating expenses	29,383	32,945	3,562
Operating loss	(16,683)	(6,042)	10,641
Nonoperating revenues:			
Investment earnings	9,900	9,913	13
Gain on sale of capital assets	-	17,218	17,218
Total nonoperating revenues	9,900	27,131	17,231
Income (loss) before transfers	(6,783)	21,089	27,872
Transfers in	200,000	2,137,675	1,937,675.00
Change in net position	\$ 193,217	2,158,764	\$ 1,965,547
Total net position, July 1		1,931,345	
Total net position, June 30		\$ 4,090,109	



www.herndon-va.gov

STATISTICAL SECTION

TOWN OF HERNDON, VIRGINIA

STATISTICAL SECTION TABLE OF CONTENTS

The statistical section of the town's comprehensive annual financial report presents detailed information as a context for understanding what the information presented in the financial statements, note disclosures and required supplementary information says about the town's overall financial health. This information has not been audited by the independent auditor.

Contents	Tables
Financial Trends These tables contain trend information to help the reader understand how the town's financial performance and well being have changed over time.	1 - 5
Revenue Capacity These tables contain information to help the reader assess the town's most significant local revenue sources, the property tax, as well as other revenue sources.	6 - 10
Debt Capacity These tables present information to help the reader assess the affordability of the town's current level of outstanding debt and the town's ability to issue additional debt in the future.	11 - 14
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the town's financial activities take place.	15 - 16
Operating Information These tables contain service and infrastructure data to help the reader understand how the information in the town's financial report relates to the services the town provides and the activities it performs.	17 - 19

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the relevant year.

TOWN OF HERNDON, VIRGINIA

Table 1

**NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities:										
Net investment in capital assets	\$ 27,816,034	\$ 31,719,000	\$ 72,076,117	\$ 72,923,937	\$ 72,604,103	\$ 72,888,823	\$ 71,869,483	\$ 70,770,618	\$ 67,773,944	\$ 66,964,850
Restricted	1,193,044	1,215,485	1,244,028	1,268,979	1,298,335	1,331,216	-	-	3,156,244	3,156,490
Unrestricted	12,107,024	12,131,044	11,575,112	11,780,466	11,187,939	11,136,298	12,710,197	13,453,945	12,982,159	13,031,542
Total governmental activities net position	\$ 41,116,102	\$ 45,065,529	\$ 84,895,257	\$ 85,973,382	\$ 85,090,377	\$ 85,356,337	\$ 84,579,680	\$ 84,224,563	\$ 83,912,347	\$ 83,152,882
Business-type activities:										
Net investment in capital assets	\$ 15,086,244	\$ 15,722,161	\$ 16,466,974	\$ 16,308,652	\$ 15,947,667	\$ 14,723,720	\$ 15,029,325	\$ 14,333,960	\$ 14,277,687	\$ 14,409,510
Unrestricted	16,955,114	15,966,544	14,919,283	14,205,592	13,837,158	15,190,726	14,896,236	15,810,683	15,838,128	17,747,172
Total business-type activities net position	\$ 32,041,358	\$ 31,688,705	\$ 31,386,257	\$ 30,514,244	\$ 29,784,825	\$ 29,914,446	\$ 29,925,561	\$ 30,144,643	\$ 30,115,815	\$ 32,156,682
Primary government:										
Net investment in capital assets	\$ 42,902,278	\$ 47,441,161	\$ 88,543,091	\$ 89,232,589	\$ 88,551,770	\$ 87,612,543	\$ 86,898,808	\$ 85,104,578	\$ 82,051,631	\$ 81,374,360
Restricted	1,193,044	1,215,485	1,244,028	1,268,979	1,298,335	1,331,216	-	-	3,156,244	3,156,490
Unrestricted	29,062,138	28,097,588	26,494,395	25,986,058	25,025,097	26,327,024	27,606,433	29,264,628	28,820,287	30,778,714
Total primary government net position	\$ 73,157,460	\$ 76,754,234	\$ 116,281,514	\$ 116,487,626	\$ 114,875,202	\$ 115,270,783	\$ 114,505,241	\$ 114,369,206	\$ 114,028,162	\$ 115,309,564

Notes:

- (1) Beginning in fiscal year 2007, all infrastructure capital assets acquired before 2003 were recorded.
- (2) Beginning in fiscal year 2011, the town reclassified the Cemetery Perpetual Care Fund to unrestricted.
- (3) This table reports financial information based on the accrual basis of accounting. The town implemented GASB Statement No. 63, the new reporting standard, in fiscal year 2013. This standard eliminated the use of the term 'net assets' and now refers to this measurement as 'net position.'

TOWN OF HERNDON, VIRGINIA

Table 2

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses:										
Governmental activities:										
Legislative	\$ 588,708	\$ 599,013	\$ 664,636	\$ 685,284	\$ 654,002	\$ 633,438	\$ 623,912	\$ 583,204	\$ 640,816	\$ 627,221
Administration	2,666,678	2,991,781	2,911,464	2,945,108	3,226,320	2,164,235	2,259,326	2,644,089	2,744,129	4,043,656
Town attorney	352,556	415,156	393,808	461,394	519,437	532,305	587,992	475,518	497,761	539,332
Parks and recreation	3,467,051	3,665,259	4,350,958	4,462,531	4,658,971	4,310,670	4,363,722	4,359,512	4,608,079	4,659,976
Finance	1,087,203	1,165,622	1,191,893	1,307,331	1,348,980	1,288,960	1,215,584	1,291,803	1,379,724	1,320,493
Community development	1,341,611	1,539,821	1,735,596	1,652,196	1,950,546	2,353,844	2,346,085	2,138,936	2,127,055	1,980,462
Police	6,868,424	7,887,728	8,460,046	8,759,234	9,257,315	9,009,339	8,548,326	8,834,312	9,465,667	9,548,043
Public works	7,988,506	7,606,343	10,363,763	11,278,365	11,229,645	10,817,176	10,493,058	11,861,291	11,488,561	11,530,515
Grants	79,212	-	-	-	-	-	-	-	-	-
Interest	826,972	904,816	940,449	875,509	813,800	765,523	807,330	938,843	533,155	443,213
Total governmental activities	25,266,921	26,775,539	31,012,613	32,426,952	33,659,016	31,875,490	31,245,335	33,127,508	33,484,947	34,692,911
Business-type activities:										
Water and sewer	5,873,518	6,135,079	6,756,592	6,692,754	6,836,413	6,615,960	6,715,723	7,173,978	7,064,425	7,589,406
Golf course	1,332,748	1,464,539	1,398,081	1,564,081	1,530,464	1,561,787	1,476,713	1,531,506	1,595,145	1,554,011
Chestnut Grove cemetery	382,021	448,989	442,171	652,781	704,690	714,927	698,361	686,962	729,837	707,836
Downtown parking	40,750	129,847	79,465	278,725	65,844	44,814	77,374	29,473	29,390	32,945
Total business-type activities	7,629,037	8,178,454	8,676,309	9,188,341	9,137,411	8,937,488	8,968,171	9,421,919	9,418,797	9,884,198
Total government expenses	32,895,958	34,953,993	39,688,922	41,615,293	42,796,427	40,812,978	40,213,506	42,549,427	42,903,744	44,577,109
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	40,281	33,874	36,634	46,447	20,650	12,827	28,242	20,573	19,606	34,762
Parks and recreation	1,991,640	2,019,553	2,198,645	2,394,257	2,551,346	2,720,621	2,848,308	2,837,304	2,826,309	2,762,453
Finance	302,510	366,100	382,570	401,700	421,790	442,880	465,020	488,270	512,690	533,200
Police	461,538	475,407	555,217	509,890	579,682	544,060	543,607	583,820	498,279	469,812
Public works	568,194	470,699	546,176	398,234	466,595	495,331	498,571	421,503	687,130	646,287
Operating grants and contributions:										
Legislative	1,906	-	-	-	-	-	-	-	-	-
Administration	144,634	197,563	174,757	177,155	195,616	112,141	114,732	29,348	-	-
Community development	-	-	638	451	-	130,958	87,289	129,380	130,823	130,000
Police	851,697	1,084,006	1,089,540	916,457	1,045,779	954,847	898,306	707,317	627,749	751,934
Public works	1,193,149	1,068,463	940,045	1,896,712	739,287	1,097,785	864,727	806,055	890,712	862,301
Capital grants and contributions:										
Police	-	-	-	-	-	-	5,000	-	-	-
Public works	1,645,937	3,381,970	11,715,486	1,013,922	1,164,938	1,645,234	1,233,410	2,570,040	1,881,507	1,610,482
Total governmental activities program revenue	7,201,486	9,097,635	17,639,708	7,755,225	7,185,683	8,156,684	7,587,212	8,593,610	8,074,805	7,801,231

TOWN OF HERNDON, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (1)
(accrual basis of accounting)
(Unaudited)**

**Table 2
Page 2**

	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 3,956,967	\$ 4,301,639	\$ 4,418,419	\$ 4,509,547	\$ 4,378,611	\$ 5,022,814	\$ 5,372,350	\$ 5,815,824	\$ 6,007,380	\$ 6,007,620
Golf course	1,289,877	1,236,010	1,395,824	1,501,835	1,469,522	1,396,993	1,279,442	1,419,051	1,392,960	1,365,597
Chestnut Grove cemetery	326,241	418,563	507,959	406,729	536,054	568,783	596,106	639,107	695,230	806,521
Operating grants and contributions:										
Water and sewer	845,013	719,489	449,735	523,025	519,711	644,817	555,893	391,965	277,902	438,140
Capital grants and contributions:										
Water and sewer	380,857	553,422	308,341	41,500	75,420	78,291	314,121	50,512	119,085	-
Golf course	-	-	-	-	-	-	-	-	61,160	154,239
Total business-type activities program revenues	6,798,955	7,229,123	7,080,278	6,982,636	6,979,318	7,711,698	8,117,912	8,316,459	8,553,717	8,772,117
Total government program revenues	14,000,441	16,326,758	24,719,986	14,737,861	14,165,001	15,868,382	15,705,124	16,910,069	16,628,522	16,573,348
Net (expense) revenue:										
Governmental activities	(18,065,435)	(17,677,904)	(13,372,905)	(24,671,727)	(26,473,333)	(23,718,806)	(23,658,123)	(24,533,898)	(25,410,142)	(26,891,680)
Business-type activities	(830,082)	(949,331)	(1,596,031)	(2,205,705)	(2,158,093)	(1,225,790)	(850,259)	(1,105,460)	(865,080)	(1,112,081)
Total government net expense	(18,895,517)	(18,627,235)	(14,968,936)	(26,877,432)	(28,631,426)	(24,944,596)	(24,508,382)	(25,639,358)	(26,275,222)	(28,003,761)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
General property	7,749,706	8,666,348	10,457,592	11,395,778	11,305,328	10,417,959	9,117,669	9,484,072	10,153,920	10,482,821
Business license	3,045,781	2,707,012	3,179,323	3,260,125	3,458,908	3,395,732	3,788,311	3,928,098	4,481,963	4,750,718
Transient occupancy	2,127,742	2,414,308	2,465,479	2,678,892	2,493,698	2,202,096	2,212,811	2,235,969	2,088,149	2,091,900
Local sales	1,647,228	1,580,278	1,639,448	1,661,725	1,511,792	1,413,606	1,488,959	1,601,032	1,668,325	1,703,517
Meals	1,010,412	1,077,313	1,169,591	1,167,976	1,103,744	1,086,649	1,154,577	1,991,460	2,008,529	2,046,307
Other local taxes	3,414,504	4,024,553	3,880,153	3,944,832	3,785,126	4,013,468	2,317,896	2,264,521	2,195,384	2,258,268
Revenues not restricted to specific programs	77,343	70,136	77,624	84,118	89,937	92,844	193,634	-	82,940	85,328
Intergovernmental, non-categorical aid	117,177	120,770	135,559	63,070	42,626	29,026	1,827,856	1,790,631	1,957,744	1,937,785
Use of money and property	682,330	866,575	1,402,972	1,332,543	1,406,066	1,216,859	725,320	899,551	451,965	1,111,136
Miscellaneous	72,595	84,178	11,828	190,623	439,355	144,995	64,412	201,030	184,899	1,984,086
Gain on sale of capital assets	1,530	1,900	19,573	52,309	-	-	-	-	-	-
Transfers	(26,526)	13,960	(63,158)	(82,139)	(46,252)	(28,468)	(9,979)	(217,583)	(175,892)	(2,109,986)
Total governmental activities	19,919,822	21,627,331	24,375,984	25,749,852	25,590,328	23,984,766	22,881,466	24,178,781	25,097,926	26,341,880

TOWN OF HERNDON, VIRGINIA

Table 2
Page 3

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2014	
General revenues and other changes in net position: (Continued)										
Business-type activities:										
Use of money and property	\$ 286,132	\$ 966,969	\$ 969,476	\$ 1,014,947	\$ 835,100	\$ 291,614	\$ 547,645	\$ 80,894	\$ 487,345	
Miscellaneous	324,506	263,456	282,077	367,475	491,843	559,781	559,314	579,466	615,068	
Transfers	(13,960)	63,158	82,139	46,252	28,468	9,979	217,583	175,892	2,109,986	
Total business-type activities	596,678	1,293,583	1,333,692	1,428,674	1,355,411	861,374	1,324,542	836,252	3,212,399	
Total primary government	22,224,009	25,669,567	27,083,544	27,019,002	25,340,177	23,742,840	25,503,323	25,934,178	29,554,279	
Changes in net position:										
Governmental activities	3,949,427	11,003,079	1,078,125	(883,005)	265,960	(776,657)	(355,117)	(312,216)	(549,800)	
Business-type activities	(352,653)	(302,448)	(872,013)	(729,419)	129,621	11,115	219,082	(28,828)	2,100,318	
Total primary government	\$ 3,596,774	\$ 10,700,631	\$ 206,112	\$ (1,612,424)	\$ 395,581	\$ (765,542)	\$ (136,035)	\$ (341,044)	\$ 1,550,518	

Note:

- (1) Net (expense) revenue is the difference between the expenses and program revenues. This difference indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in a parentheses are net expenses indicating that expenses were greater than program revenues, and the revenues were needed to finance that function or program. Numbers without parentheses are net revenues, demonstrating that program revenues were more than sufficient to cover expenses.

TOWN OF HERNDON, VIRGINIA

Table 3

PROGRAM REVENUES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

Function / Program	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities:										
Legislative	\$ 1,906	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administration	184,915	231,437	211,391	223,602	216,266	124,968	142,974	49,921	19,606	34,762
Parks and recreation	1,991,640	2,019,553	2,198,645	2,394,257	2,551,346	2,720,621	2,848,308	2,837,304	2,826,309	2,762,453
Finance	302,510	366,100	382,570	401,700	421,790	442,880	465,020	488,270	512,690	533,200
Community development	-	-	638	451	-	130,958	87,289	129,380	130,823	130,000
Police	1,313,235	1,559,413	1,644,757	1,426,347	1,625,461	1,498,907	1,446,913	1,291,137	1,126,028	1,221,746
Public works	3,407,280	4,921,132	13,201,707	3,308,868	2,370,820	3,238,350	2,596,708	3,797,598	3,459,349	3,119,070
Total governmental activities	7,201,486	9,097,635	17,639,708	7,755,225	7,185,683	8,156,684	7,587,212	8,593,610	8,074,805	7,801,231
Business-type activities:										
Water and sewer	5,182,837	5,574,550	5,176,495	5,074,072	4,973,742	5,745,922	6,242,364	6,258,301	6,404,367	6,445,760
Golf course	1,289,877	1,236,010	1,395,824	1,501,835	1,469,522	1,396,993	1,279,442	1,419,051	1,454,120	1,519,836
Chestnut Grove cemetery	326,241	418,563	507,959	406,729	536,054	568,783	596,106	639,107	695,230	806,521
Total business-type activities	6,798,955	7,229,123	7,080,278	6,982,636	6,979,318	7,711,698	8,117,912	8,316,459	8,553,717	8,772,117
Total government	\$ 14,000,441	\$ 16,326,758	\$ 24,719,986	\$ 14,737,861	\$ 14,165,001	\$ 15,868,382	\$ 15,705,124	\$ 16,910,069	\$ 16,628,522	\$ 16,573,348

Note:

- (1) In years 2005 through 2014, the public works department received donated assets of \$895,362, \$2,854,521 \$10,904,769, \$215,931, \$169,792, \$738,713, \$251,315, \$484,901, \$458,718 and zero, respectively, which is included in revenue above.

TOWN OF HERNDON, VIRGINIA

Table 4

**FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(unaudited)**

		June 30,				
		2005	2006	2007	2008	2009
General Fund:						
Nonspendable		\$ 810,834	\$ 777,549	\$ 777,549	\$ 668,306	\$ 696,928
Assigned		1,542,828	1,514,448	1,514,448	2,076,810	1,547,148
Unassigned		5,032,926	5,505,291	5,505,291	5,065,689	5,572,879
Total General Fund		\$ 7,386,588	\$ 7,797,288	\$ 7,797,288	\$ 7,810,805	\$ 7,816,955
All Other Governmental Funds:						
Committed		\$ 1,193,044	\$ 1,215,485	\$ 1,244,028	\$ 1,268,979	\$ 1,298,335
Assigned		6,102,071	6,776,899	5,560,103	6,132,528	6,283,685
Total all other governmental funds		\$ 7,295,115	\$ 7,992,384	\$ 6,804,131	\$ 7,401,507	\$ 7,582,020

		June 30,				
		2010	2011	2012	2013	2014
General Fund:						
Nonspendable		\$ 521,699	\$ 465,104	\$ 437,038	\$ 396,781	\$ 319,403
Committed		-	-	200,000	400,000	600,000
Assigned		1,330,286	1,447,107	1,275,540	1,478,176	1,494,774
Unassigned		5,830,035	6,269,345	6,899,792	7,109,184	8,164,509
Total General Fund		\$ 7,682,020	\$ 8,181,556	\$ 8,812,370	\$ 9,384,141	\$ 10,578,686
All Other Governmental Funds:						
Nonspendable		\$ -	\$ -	\$ 400	\$ -	\$ -
Committed		1,331,216	1,364,493	1,401,996	1,444,382	1,497,956
Assigned		8,714,791	9,094,285	9,073,286	8,623,145	8,202,084
Total all other governmental funds		\$ 10,046,007	\$ 10,458,778	\$ 10,475,682	\$ 10,067,527	\$ 9,700,040

Note:

(1) In fiscal year 2011, the Town adopted GASB 54 which changed fund balance classifications. Fiscal year 2005 - fiscal year 2010 are restated to reflect the new classifications.

TOWN OF HERNDON, VIRGINIA

Table 5

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues:										
General property taxes	\$ 7,775,583	\$ 8,702,956	\$ 10,441,826	\$ 11,415,226	\$ 11,315,372	\$ 10,397,197	\$ 9,121,061	\$ 9,469,904	\$ 10,166,799	\$ 10,500,239
Other local taxes	11,257,001	11,803,464	12,333,994	12,713,550	12,353,268	12,111,551	10,962,554	12,021,080	12,442,350	12,850,710
Permits, privilege fees and regulatory licenses	479,470	388,028	442,686	285,090	361,280	398,453	394,406	307,471	576,155	532,695
Fines and forfeitures	449,833	471,902	571,830	571,998	593,631	546,486	525,648	586,607	491,067	632,491
Use of money and property	682,330	866,575	1,402,972	1,332,543	1,406,066	1,216,859	725,320	899,551	451,965	1,111,136
Charges for services	2,493,173	2,563,109	2,769,747	2,999,216	3,158,288	3,344,974	3,540,621	3,553,684	3,550,572	3,525,332
Miscellaneous	75,862	84,178	11,828	190,623	318,482	122,619	45,613	173,216	156,708	33,485
Intergovernmental	3,300,434	2,998,623	3,151,292	3,751,795	3,017,100	3,036,075	4,914,716	5,601,971	5,020,623	5,338,235
Total revenues	26,513,686	27,878,835	31,126,175	33,260,041	32,523,487	31,174,214	30,229,939	32,613,484	32,856,239	34,524,323
Expenditures:										
Legislative	581,659	605,038	659,583	660,310	651,245	621,490	621,830	574,002	633,519	622,325
Administration	2,181,253	2,373,380	2,463,940	2,621,611	2,443,752	1,794,756	1,875,307	2,039,372	2,249,139	2,319,175
Town attorney	350,048	415,617	390,529	455,322	522,946	533,800	580,099	465,714	494,245	535,633
Parks and recreation	3,141,800	3,353,890	3,628,248	3,922,569	3,896,866	3,588,867	3,637,139	3,615,552	3,851,099	3,985,756
Finance	1,022,423	1,137,903	1,177,062	1,263,648	1,291,102	1,237,706	1,159,375	1,236,659	1,302,849	1,267,040
Community development	1,269,554	1,479,769	1,679,530	1,647,157	1,853,933	2,258,153	2,060,965	2,069,278	2,051,139	1,891,352
Police	6,588,415	7,209,795	7,787,327	8,426,430	8,662,952	8,605,850	8,164,952	8,829,067	9,053,956	9,097,892
Public works	7,139,428	7,452,737	8,132,036	8,281,419	9,049,695	9,071,074	8,460,778	8,534,908	9,172,971	9,453,015
Grants	79,212	241,986	213,168	70,741	169,494	112,375	56,077	52,544	38,171	102,305
Capital outlay	5,493,994	6,078,124	3,630,995	2,452,376	1,354,695	1,713,889	1,117,577	2,313,599	1,699,472	2,242,162
Debt service:										
Principal	1,481,312	1,676,313	1,649,242	1,936,694	1,714,623	1,804,517	1,755,837	1,458,640	1,505,093	1,540,720
Interest and fiscal charges	853,937	902,549	969,521	881,041	800,142	808,155	838,530	695,817	494,954	481,073
Total expenditures	30,183,035	32,927,101	32,381,181	32,619,318	32,411,445	32,150,632	30,328,466	31,885,152	32,546,607	33,538,448
Excess of revenues over (under) expenditures	(3,669,349)	(5,048,266)	(1,255,006)	640,723	112,042	(976,418)	(98,527)	728,332	309,632	985,875
Other financing sources (uses):										
Transfers in	3,598,613	1,216,293	1,508,043	1,424,483	551,856	1,255,981	755,777	666,003	584,487	1,048,074
Transfers out	(3,625,139)	(1,202,333)	(1,571,201)	(1,506,622)	(598,108)	(1,284,449)	(765,756)	(883,586)	(760,379)	(3,158,060)
Issuance of debt	-	5,490,000	500,000	-	-	3,240,000	902,500	97,500	-	-
Proceeds of refunding bonds	-	-	-	-	-	-	1,766,365	4,999,000	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	(1,760,506)	(4,986,906)	-	-
Premium (discount) on issuance debt	-	(4,368)	21,038	-	-	71,562	92,459	-	-	-
Proceeds from sale of property	1,530	18,208	19,573	52,309	120,873	22,376	19,995	27,375	29,876	1,951,169
Total other financing sources (uses), net	(24,996)	5,517,800	477,453	(29,830)	74,621	3,305,470	1,010,834	(80,614)	(146,016)	(158,817)
Net changes in fund balances	\$ (3,694,345)	\$ 469,534	\$ (777,553)	\$ 610,893	\$ 186,663	\$ 2,329,052	\$ 912,307	\$ 647,718	\$ 163,616	\$ 827,058

TOWN OF HERNDON, VIRGINIA

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

Table 5
Page 2

	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt service as a percentage of noncapital expenditures:										
Total debt service	\$ 2,335,249	\$ 2,578,862	\$ 2,618,763	\$ 2,817,735	\$ 2,514,765	\$ 2,612,672	\$ 2,594,367	\$ 2,154,457	\$ 2,000,047	\$ 2,021,793
Total expenditures	\$ 30,183,035	\$ 32,927,101	\$ 32,381,181	\$ 32,619,318	\$ 32,411,445	\$ 32,150,632	\$ 30,328,466	\$ 31,885,152	\$ 32,546,607	\$ 33,538,448
Less: capital outlay	(5,241,256)	(6,484,548)	(2,909,600)	(1,721,592)	(1,236,989)	(2,115,568)	(920,817)	(1,325,046)	(1,784,169)	(2,464,081)
Noncapital expenditures	\$ 24,941,779	\$ 26,442,553	\$ 29,471,581	\$ 30,897,726	\$ 31,174,456	\$ 30,035,064	\$ 29,407,649	\$ 30,560,106	\$ 30,762,438	\$ 31,074,367
Debt service as a percentage of noncapital expenditures	9.36%	9.75%	8.89%	9.12%	8.07%	8.70%	8.82%	7.05%	6.50%	6.51%

TOWN OF HERNDON, VIRGINIA

Table 6

**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

Fiscal Year June 30,	General Property Including Interest and Penalty (1)	Business License	Transient Occupancy (2)	Local Sales	Meals (3)	Cigarette (4)	Motor Vehicle	Consumer Utility and Consumption (5)	Mobile Tele- Communications (6)	5% Communications Sales and Use (7)	Other (8)	Total
2005	\$ 7,775,583	\$ 3,055,880	\$ 2,127,742	\$ 1,647,228	\$ 1,010,412	\$ 276,565	\$ 317,489	\$ 1,711,601	\$ 337,634	\$ -	\$ 772,450	\$ 19,032,584
2006	8,702,956	2,707,012	2,414,308	1,580,278	1,077,313	373,152	318,846	1,787,691	650,991	-	893,873	20,506,420
2007	10,441,826	3,179,323	2,465,479	1,639,448	1,169,591	352,223	288,512	1,327,411	316,404	847,892	747,711	22,775,820
2008	11,415,226	3,260,125	2,678,892	1,661,725	1,167,976	322,660	271,605	877,394	-	1,928,078	545,095	24,128,776
2009	11,315,372	3,458,908	2,493,698	1,511,792	1,103,744	307,047	285,356	878,034	-	1,796,554	518,135	23,668,640
2010	10,397,197	3,395,732	2,202,096	1,413,606	1,086,649	293,592	290,313	899,685	-	1,853,246	676,632	22,508,748
2011	9,121,061	3,788,311	2,212,811	1,488,959	1,154,577	390,163	373,933	884,483	-	-	669,317	20,083,615
2012	9,469,904	3,928,098	2,235,969	1,601,032	1,991,460	364,975	386,712	882,544	-	-	630,290	21,490,984
2013	10,166,799	4,481,963	2,088,149	1,668,325	2,008,529	333,869	373,415	888,993	-	-	599,107	22,609,149
2014	10,500,239	4,750,718	2,091,900	1,703,517	2,046,307	337,783	371,325	895,793	-	-	653,367	23,350,949
Change 2005-2014	35.04%	55.46%	-1.68%	3.42%	102.52%	22.14%	16.96%	-47.66%	N/A	N/A	-15.42%	22.69%

Source: Town records.

Notes:

- (1) Town's real property assessments have increased 43 percent from 2005 to 2014. However, the town's real estate tax rate decreased over the past ten years from \$0.28 per \$100 of assessed value (AV) to \$0.2650 per \$100 AV.
- (2) Over the past ten years, three new hotels were opened within the town's corporate limits.
- (3) Town adopted a meals tax, at a rate of 1.5 percent, which became effective July 1, 2004. Rate was increased to 2.5 percent effective July 1, 2011.
- (4) Cigarette tax rate was \$0.35 per pack effective for fiscal year 2005. The rate was increased from \$0.35 to \$0.50 per pack effective for fiscal years 2006 thru 2010; and from \$0.50 to \$0.75 per pack effective for fiscal years 2011 through 2014.
- (5) Increase in consumer utility tax collections for fiscal years 2005 and 2006 corresponds with increase in residential housing units and commercial office space built during the past ten years. The consumer utility tax on telecommunication services was eliminated effective January 1, 2007 and replaced by the State 5 percent communications sales and use tax. (see Note 7)
- (6) Town adopted a mobile telecommunications (cell phone) tax which became effective December 1, 2004. The mobile telecommunications (cell phone) tax was eliminated effective January 1, 2007 and replaced by the State 5 percent communications sales and use tax. (see Note 7)
- (7) State communications sales and use tax became effective January 1, 2007. This tax replaced three locally assessed town taxes which are the consumer utility tax on telecommunication services, the mobile telecommunications (cell phone) tax and the 5 percent portion of the town's cable TV franchise fee. Beginning in fiscal year 2011, this tax is now accounted for as state intergovernmental revenue.
- (8) Includes right of way use fees, bank stock taxes and cable TV franchise fees.

TOWN OF HERNDON, VIRGINIA

Table 7

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Residential Property	Commercial Property	Public Service Corporation	Nontaxable	Total Assessed Value	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Assessed Value
2005	\$ 1,458,102,379	\$ 1,167,782,655	\$ 141,520,282	\$ 100,362,250	\$ 2,867,767,566	\$ 2,767,405,316	9.23%	\$ 0.2800	\$ 2,767,405,316	100.00%
2006	1,924,855,719	1,417,144,440	138,361,962	115,928,125	3,596,290,246	3,480,362,121	25.76%	0.2500	3,480,362,121	100.00%
2007	2,417,778,953	1,801,437,496	187,449,426	148,854,355	4,555,520,230	4,406,665,875	26.62%	0.2400	4,406,665,875	100.00%
2008	2,478,870,750	2,118,458,610	152,834,703	148,854,355	4,899,018,418	4,750,164,063	7.79%	0.2400	4,750,164,063	100.00%
2009	2,370,955,949	2,212,843,650	148,261,544	235,205,540	4,967,266,683	4,732,061,143	(0.38)%	0.2400	4,732,061,143	100.00%
2010	1,679,450,917	2,174,409,910	137,947,029	222,736,840	4,214,544,696	3,991,807,856	(15.64)%	0.2600	3,991,807,856	100.00%
2011	1,596,765,065	1,684,423,215	134,591,895	202,647,500	3,618,427,675	3,415,780,175	(14.43)%	0.2675	3,415,780,175	100.00%
2012	1,708,242,740	1,747,193,177	119,532,778	204,073,885	3,779,042,580	3,574,968,695	4.66%	0.2650	3,574,968,695	100.00%
2013	1,801,509,810	1,925,923,584	116,081,340	205,388,122	4,048,902,856	3,843,514,734	7.51%	0.2650	3,843,514,734	100.00%
2014	1,980,265,471	1,883,749,270	81,935,902	208,716,740	4,154,667,383	3,945,950,643	2.67%	0.2650	3,945,950,643	100.00%

Sources:

Town of Herndon Department of Finance

County of Fairfax Department of Tax Administration (Real Estate Division)

Notes:

- (1) Increases in assessments from 2005 through 2009 correspond to rapid increases in residential and commercial values, coupled with extensive residential and commercial building construction, which began in 1999.
- (2) Declines in assessments noted for 2010 and 2011, especially in the residential sector, reflect the rapid decline in property values during that time for the Washington DC housing market.

TOWN OF HERNDON, VIRGINIA

Table 8

**DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Tax Rates - Town		Tax Rates - County		Tax Rates - Combined	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2005	\$ 0.2800	\$ -	\$ 1.1300	\$ 4.5700	\$ 1.4100	\$ 4.5700
2006	0.2500	-	1.0000	4.5700	1.2500	4.5700
2007	0.2400	-	0.8900	4.5700	1.1300	4.5700
2008	0.2400	-	0.8900	4.5700	1.1300	4.5700
2009	0.2400	-	0.9200	4.5700	1.1600	4.5700
2010	0.2600	-	1.0400	4.5700	1.3000	4.5700
2011	0.2675	-	1.0900	4.5700	1.3575	4.5700
2012	0.2650	-	1.0750	4.5700	1.3400	4.5700
2013	0.2650	-	1.0850	4.5700	1.3500	4.5700
2014	0.2650	-	1.0900	4.5700	1.3550	4.5700

Notes:

- (1) These rates are per \$100 of assessed value for real estate and personal property.
- (2) A town assessed levy on personal property ceased in fiscal year 1989.

TOWN OF HERNDON, VIRGINIA

Table 9

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Taxpayer	2014				2005		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
BP New Dominion Technology	\$ 80,604,190	1	2.04 %	\$	-	-	- %
New Dominion	71,051,990	2	1.80	-	-	-	-
Inland American Herndon Worldgate	68,143,310	3	1.73	-	-	-	-
GSG Residential Westerly at Worldgate	60,759,471	4	1.54	-	-	-	-
Worldgate Centre LLC	60,153,520	5	1.52	-	-	-	-
GSG Residential Townes at Herndon Center LLC	59,870,330	6	1.52	-	-	-	-
MIVPO LLC	59,559,480	7	1.51	-	-	-	-
Federal National Mortgage Assoc.	58,781,640	8	1.49	-	-	-	-
Realty Associates Fund PX LP	54,568,250	9	1.38	-	-	-	-
Washington Real Estate Investment Trust	47,412,790	10	1.20	-	-	-	-
Federal National Mortgage Assoc.	-	-	-	104,333,490	1	3.77	
New Dominion Technology	-	-	-	89,445,540	2	3.23	
Worldgate Plaza LLC	-	-	-	62,529,380	3	2.26	
HMH Properties Inc.	-	-	-	40,419,610	4	1.46	
CalEast Industrial	-	-	-	40,091,470	5	1.45	
E Property Tax	-	-	-	37,298,420	6	1.35	
First Herndon Associates	-	-	-	36,863,820	7	1.33	
POI Presidents Plaza Trust	-	-	-	36,632,700	8	1.32	
Metropolitan Life	-	-	-	35,453,620	9	1.28	
Dwoskin, Albert J. Tr.	-	-	-	35,126,270	10	1.27	
Total	\$ 620,904,971		15.74 %	\$ 518,194,320		18.72 %	

Sources:

Town of Herndon Department of Finance.

County of Fairfax Department of Tax Administration (Real Estate Division).

TOWN OF HERNDON, VIRGINIA

Table 10

**REAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Taxes Levied for the Fiscal Year (1)	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2005	\$ 7,748,735	\$ 7,707,990	99.47%	\$ 40,745	\$ 7,748,735	100.00%
2006	8,700,905	8,650,854	99.42%	50,051	8,700,905	100.00%
2007	10,466,159	10,398,449	99.35%	67,705	10,466,154	100.00%
2008	11,033,590	10,982,504	99.54%	51,086	11,033,590	100.00%
2009	11,001,119	10,961,629	99.64%	39,351	11,000,980	100.00%
2010	10,019,464	9,970,734	99.51%	48,435	10,019,169	100.00%
2011	8,709,325	8,657,610	99.41%	50,364	8,707,974	99.98%
2012	9,160,086	9,104,251	99.39%	54,180	9,158,431	99.98%
2013	9,880,992	9,845,894	99.64%	26,920	9,872,814	99.92%
2014	10,299,028	10,272,232	99.74%	NA	10,272,232	99.74%

Source:

Town of Herndon Finance Department.

Note:

(1) Abatements and supplements which relate to prior years are recorded as revenue collections (or refunds) in year of receipt. Records do not exist which separate current fiscal year levy collections from prior tax year abatements and supplements.

TOWN OF HERNDON, VIRGINIA

Table 11

**RATIOS OF OUTSTANDING DEBT BY TYPE AND GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Per Capita Personal Income	Debt Per Capita	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	General Bonded Debt Outstanding
	General Obligation Bonds	Capital Leases and Notes	Revenue Bonds				General Obligation Bonds		Debt Per Capita
2005	\$ 18,360,268	\$ -	\$ 1,737,796	\$ 20,098,064	1.52%	\$ 883	\$ 18,360,268	0.66%	\$ 807
2006	21,648,236	525,000	1,660,771	23,834,007	1.67%	1,047	21,648,236	0.62%	938
2007	20,523,352	525,000	3,414,710	24,463,062	1.66%	1,054	20,523,352	0.47%	884
2008	18,754,365	360,000	3,269,337	22,383,702	1.42%	958	18,754,365	0.39%	803
2009	17,207,449	195,000	3,121,892	20,524,341	1.23%	874	17,207,449	0.36%	733
2010	18,046,007	865,000	3,478,783	22,389,790	1.32%	953	18,046,007	0.45%	768
2011	16,382,491	1,767,500	3,364,163	21,514,154	1.36%	911	16,382,491	0.48%	694
2012	15,388,576	1,730,000	3,166,900	20,285,476	1.33%	861	15,388,576	0.43%	653
2013	14,009,445	1,590,513	2,961,603	18,561,561	1.14%	787	14,009,445	0.36%	594
2014	12,594,199	1,451,514	2,747,420	16,793,133	0.99%	712	12,594,199	0.32%	534

Notes:

- (1) Details regarding the town's outstanding debt may be found in the notes to the basic financial statements.
- (2) Population and personal income data can be found in table 15.
- (3) See table 7 for property value data.

TOWN OF HERNDON, VIRGINIA

Table 12

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2014
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Fairfax County, Virginia	\$ 2,389,831,718	1.8660%	\$ 44,594,604
Town Direct Debt			14,045,713
Total direct and overlapping debt			\$ 58,640,317

Sources:

- (1) Town of Herndon Department of Finance and County of Fairfax Finance Department.
- (2) Town of Herndon percentage of overlapping debt based on Real Estate assessed values of each respective entity.

TOWN OF HERNDON, VIRGINIA

Table 13

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 262,588,503	\$ 334,200,016	\$ 421,921,645	\$ 459,732,936	\$ 458,379,960	\$ 385,386,083	\$ 328,121,001	\$ 345,568,950	\$ 372,773,329	\$ 386,401,474
Total net debt applicable to limit	18,360,268	22,173,236	21,048,352	19,114,365	17,402,449	18,911,007	18,149,991	17,118,576	15,599,958	14,045,713
Available legal debt margin	<u>\$ 244,228,235</u>	<u>\$ 312,026,780</u>	<u>\$ 400,873,293</u>	<u>\$ 440,618,571</u>	<u>\$ 440,977,511</u>	<u>\$ 366,475,076</u>	<u>\$ 309,971,010</u>	<u>\$ 328,450,374</u>	<u>\$ 357,173,371</u>	<u>\$ 372,355,761</u>
Total net debt applicable to the limit as a percentage of debt limit	6.99%	6.63%	4.99%	4.16%	3.80%	4.91%	5.53%	4.95%	4.18%	3.64%

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value of real estate	<u>\$ 3,864,014,741</u>
Debt limit (10% of assessed value)	\$ 386,401,474
Debt applicable to limit:	
Net direct debt outstanding	<u>14,045,713</u>
Available legal debt margin	<u>\$ 372,355,761</u>

Summary of Outstanding Debt:

2003 taxable general obligation bonds	\$ 420,000
2005 general obligation bonds	3,365,000
2006 general obligation bonds	370,575
2010 general obligation bonds	2,018,100
2010 refunding bonds	1,294,749
2012 refunding bonds	4,999,000
2009 fifteen-year note	1,360,000
2010 twenty-year note	91,514
Deferred bond premiums	142,223
Deferred bond discounts	<u>(15,448)</u>
	<u>\$ 14,045,713</u>

Notes:

- (1) Net direct debt excludes debt service on general obligation bond issues in the Golf Course and the Chestnut Grove Cemetery Funds.
- (2) Under the Constitution of Virginia, the town may not issue bonds in excess of 10% of assessed valuation.
Self-supporting debt is not included in this calculation.

TOWN OF HERNDON, VIRGINIA

Table 14

BOND COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)

Golf Course Fund								
Fiscal Year June 30,	Service Charges	Operating Expenses	Net Available Revenue	Debt Service		Total	Coverage	
				Principal	Interest			
2005	\$ 1,357,237	\$ 1,074,976	\$ 282,261	\$ 49,900	\$ 51,069	\$ 100,969	2.80	
2006	1,293,184	1,181,895	111,289	49,899	49,323	99,222	1.12	
2007	1,464,100	1,134,362	329,738	51,212	47,527	98,739	3.34	
2008	1,576,985	1,303,023	273,962	53,838	45,632	99,470	2.75	
2009	1,518,889	1,270,943	247,946	55,152	43,559	98,711	2.51	
2010	1,512,540	1,306,977	205,563	59,091	41,353	100,444	2.05	
2011	1,369,871	1,188,595	181,276	87,059	59,284	146,343	1.24	
2012	1,496,295	1,252,292	244,003	83,044	46,623	129,667	1.88	
2013	1,467,555	1,331,920	135,635	85,670	44,298	129,968	1.04	
2014	1,462,861	1,298,157	164,704	89,146	42,294	131,440	1.25	

Chestnut Grove Cemetery Fund								
Fiscal Year June 30,	Service Charges	Operating Expenses	Net Available Revenue	Debt Service		Total	Coverage	
				Principal	Interest			
2005	\$ 474,525	\$ 300,663	\$ 173,862	\$ 28,788	\$ 29,463	\$ 58,251	2.98	
2006	469,000	369,329	99,671	28,788	28,455	57,243	1.74	
2007	606,799	353,710	253,089	29,546	27,419	56,965	4.44	
2008	472,053	415,793	56,260	89,468	106,669	196,137	0.29	
2009	573,029	447,881	125,148	90,225	104,730	194,955	0.64	
2010	616,522	466,123	150,399	96,392	101,412	197,804	0.76	
2011	635,207	459,127	176,080	107,104	99,529	206,633	0.85	
2012	686,149	475,324	210,825	103,316	89,108	192,424	1.10	
2013	744,741	524,940	219,801	108,724	85,348	194,072	1.13	
2014	851,041	514,028	337,013	114,133	81,210	195,343	1.73	

Notes:

- (1) Utility service charges includes all revenues of the fund except gains on sale of capital assets and capital grant revenue.
- (2) Operating expenses are exclusive of depreciation and amortization, interest expense and losses on sale of capital assets.
- (3) The bonds for the Chestnut Grove Cemetery Fund were issued in fiscal years 2001 and 2007 with the first principal payments due in fiscal years 2002 and 2008, respectively.
- (4) The bonds for the Chestnut Grove Cemetery Fund and the Golf Course Fund issued in fiscal year 2001 were refunded in fiscal year 2011. The last principal payment for the refunded bonds and the first principal payment for the refunding bonds were made in fiscal year 2011.

TOWN OF HERNDON, VIRGINIA

Table 15

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Population (1)	Personal Income (000's) (2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rates (%) (4)
2005	22,765	\$ 1,326,425	\$ 58,266	164,195	2.7
2006	23,087	1,428,139	61,859	164,408	2.5
2007	23,217	1,476,114	63,579	164,284	2.2
2008	23,367	1,581,736	67,691	166,307	3.2
2009	23,476	1,662,617	70,822	169,538	4.8
2010	23,496	1,691,289	71,982	169,538	5.1
2011	23,620	1,584,760	67,094	172,391	4.9
2012	23,556	1,522,589	64,637	177,918	4.2
2013	23,572	1,622,861	68,847	181,259	4.3
2014	23,592	1,689,352	71,607	183,895	4.2

Sources:

(1) Town of Herndon, Community Development.

(2) Fairfax County Department of Systems Management for Human Services, U. S. Census Bureau's American Community Survey.

(3) Fairfax County Public Schools, Office of Finance.

(4) Virginia Employment Commission, Annual Unemployment Statistics (not seasonally adjusted).
Rate is for Fairfax County as of June 30 of the fiscal year.

TOWN OF HERNDON, VIRGINIA

Table 16

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Employer	2014	2005
	Employment Range	Employment Range
Clear Wireless LLC	Over 500	-
Booz Allen Hamilton Inc.	Over 500	-
Exelis Inc.	Over 500	-
Amazon Corporation	249-499	-
Worldgate Sport & Health Club	249-499	-
Medical Transportation Services	100-250	-
The Boeing Company	100-250	-
Airline Pilots Association	100-250	-
CGI Federal	100-250	-
Segovia	100-250	-
Airbus Industries of N. America	-	Over 200
Computer Associates	-	Over 200
Global One	-	Over 200
Logicon	-	Over 200
Northwest Federal Credit Union	-	Over 200
Oracle Corporation	-	Over 200
PSINet	-	Over 200
Sallie Mae	-	Over 200
Science Applications Int. Corporation	-	Over 200
Town of Herndon	-	Over 200

Sources:

Fairfax County Economic Development Authority.

Virginia Employment Commission.

Town of Herndon, Community Development and Finance Departments.

TOWN OF HERNDON, VIRGINIA

Table 17

**FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Legislative	3.6	3.6	3.8	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Administration:										
Public information	1.0	0.8	1.7	1.5	1.5	1.5	1.5	1.5	1.6	2.4
Town manager	2.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Human resources	3.3	4.3	3.5	3.4	3.3	3.5	3.5	3.4	3.4	3.1
Information services	5.9	6.2	5.9	6.1	6.0	5.7	5.3	6.0	6.0	6.1
Neighborhood resources (1)	4.9	5.3	3.9	4.7	3.5	-	-	-	-	-
Town attorney	2.8	2.8	2.9	2.8	3.0	2.6	2.6	2.8	2.8	2.6
Parks and recreation:										
Administration	5.5	5.5	4.7	5.5	4.6	3.9	4.2	4.6	4.9	4.0
Recreation programs (2)	15.8	15.9	19.5	20.1	19.3	17.7	16.9	15.3	15.1	15.1
Community center operations	12.9	11.9	12.3	15.9	17.0	15.4	16.2	16.6	16.9	16.7
Aquatics programs and operations	13.1	13.5	11.6	12.9	13.6	13.4	13.3	13.7	13.3	13.1
Park operation and development	2.0	2.3	1.6	1.9	1.1	1.2	1.4	1.3	1.6	1.6
Finance:										
Administration	2.0	2.0	1.4	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Billing and accounting	4.6	4.8	4.6	5.0	5.0	5.0	5.0	5.0	4.9	4.7
Revenue (2)	2.6	3.0	3.4	4.6	3.8	3.2	2.8	2.8	2.8	2.8
Procurement	1.0	0.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Community development (1), (2)	17.2	19.9	21.0	20.3	21.5	22.0	22.3	21.5	19.2	18.7
Police:										
Field operations	48.5	50.5	51.3	46.1	45.6	45.4	44.1	49.9	48.9	48.4
Support services	24.0	23.5	25.1	32.0	33.7	35.0	33.9	29.8	31.9	33.4
Public works:										
Administration	6.9	7.1	6.2	8.2	8.2	8.1	6.1	6.9	7.0	7.0
Engineering	3.9	3.8	4.2	4.6	5.0	5.0	5.0	5.0	4.9	4.4
Program management	3.2	3.1	3.0	2.0	2.8	3.0	3.0	3.0	2.9	2.8
Building inspections	5.0	4.4	4.5	5.2	5.2	4.8	4.0	4.9	4.8	4.9
Building maintenance	6.7	7.0	8.2	8.0	8.3	8.4	8.3	8.4	8.5	8.0
Grounds maintenance	10.5	10.4	10.1	10.1	10.4	10.5	7.8	9.0	11.0	11.0
Street maintenance	8.6	8.2	7.0	7.3	10.3	8.8	10.3	8.7	9.8	11.0
Refuse/recycling	16.3	17.1	17.9	18.1	17.4	16.9	17.0	16.6	17.0	16.8
Vehicle and equipment replacement	10.4	10.2	10.5	9.9	10.1	10.5	10.3	9.2	9.4	9.4
Traffic engineering (2)	4.8	4.0	3.8	3.8	3.8	3.5	3.1	3.0	3.1	3.2
Right-of-way inspections	3.2	3.1	3.1	3.0	3.1	3.2	3.1	3.1	3.0	3.1

TOWN OF HERNDON, VIRGINIA

Table 17
Page 2

FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water and Sewer:										
Customer service	3.1	2.9	3.3	2.0	3.7	3.8	3.8	3.9	4.1	4.0
Sewer service and maintenance (2)	5.1	6.8	6.3	6.2	5.6	6.4	5.7	3.3	4.4	5.3
Water supply and maintenance	5.3	5.3	5.7	7.1	6.4	6.7	5.6	8.1	7.7	7.3
Golf Course:										
Maintenance (2)	9.2	8.3	8.6	8.4	8.1	7.6	7.2	7.2	7.2	7.5
Clubhouse	5.8	6.0	5.9	6.2	6.3	6.0	5.7	5.8	5.7	5.8
Chestnut Grove Cemetery:										
Administration	4.2	4.5	4.4	5.1	4.9	5.0	4.9	5.0	4.8	4.8
Total	285.3	290.4	293.4	306.9	311.0	302.5	292.9	294.4	297.9	298.0

Source:

Town of Herndon, Finance Department

Notes:

- (1) As part of the fiscal year 2010 budget, Neighborhood Resources division was transferred from Administration to Community Development.
- (2) Due to economic recession, starting in fiscal year 2010 several positions in the larger departments were either "frozen" or, in some cases, eliminated.

TOWN OF HERNDON, VIRGINIA

Table 18

**OPERATING INDICATORS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police:										
Calls for service	33,800	33,100	35,000	35,600	33,800	27,700	28,100	27,700	30,900	28,985
Administration:										
Number of recruitments	95	78	86	158	93	78	105	89	60	56
Building safety:										
Total building permits	661	685	361	310	168	342	308	247	226	241
Total inspections performed	5,352	3,628	3,864	3,628	3,766	3,446	3,421	2,928	2,628	2,613
Public service:										
Refuse collected (tons)	6,380	6,704	6,362	5,817	5,655	5,868	5,948	5,860	5,248	5,670
Recycle collected (residential - tons)	1,345	1,340	1,879	1,737	1,427	1,473	1,501	1,518	1,517	1,625
Parks and Recreation:										
Recreation program attendance	18,909	15,841	14,900	15,875	16,703	17,842	17,368	16,954	12,000	11,500
Herndon Festival attendance	83,000	82,000	79,000	85,000	83,000	79,000	82,000	69,000	82,000	82,000
Water and sewer:										
New utility accounts	246	72	26	30	24	10	50	78	15	25
Average daily water consumption (mgd)	2.42	2.44	2.52	2.42	2.28	2.09	2.15	2.17	2.02	2.00
Average daily sewage treatment (mgd)	2.78	2.58	2.48	2.39	2.40	2.57	2.50	2.47	2.24	2.66
Golf Course:										
Rounds played (18 and 9 hole)	34,718	31,017	33,705	34,940	32,781	32,110	30,098	33,435	31,766	31,421
Cemetery:										
Sites sold	216	164	164	139	147	184	163	204	180	184
Interments performed	139	140	144	102	133	174	117	138	124	129

Sources:

Town of Herndon Town Manager's Annual Reports for fiscal years 2005 through 2014.
Town of Herndon Adopted Annual Budgets for fiscal years 2005 through 2014.
Town of Herndon Department of Public Works.
Town of Herndon Police Department.

TOWN OF HERNDON, VIRGINIA

Table 19

**CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	28	31	33	35	38	39	39	42	42	45
Refuse Collection:										
Collection trucks	8	8	8	8	8	9	9	9	9	9
Other public works:										
Vehicles/equipment maintained	369	370	372	374	374	375	374	378	379	385
Streets:										
Primary (miles)	29.9	29.9	29.9	29.9	29.9	29.9	29.9	31.3	31.3	31.3
Secondary (miles)	98.1	98.1	98.1	98.1	98.1	98.1	98.5	98.4	98.4	98.4
Parks & Recreation:										
Parks - number of acres	96.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
Swimming pools	1	1	1	1	1	1	1	1	1	1
Parks with playground equipment	6	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
Water:										
Water lines (miles)	85.0	87.0	88.0	88.7	88.7	89.3	89.3	89.3	89.3	83.4
Storage capacity (million gallons)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Wastewater:										
Sanitary sewers (miles)	78.0	80.0	80.8	81.3	81.3	81.8	81.8	81.8	81.8	81.8

Sources:

Town of Herndon Town Manager's Annual Reports for fiscal years 2005 through 2014.
Town of Herndon Adopted Annual Budgets for fiscal years 2005 through 2014.
Town of Herndon Department of Public Works.



www.herndon-va.gov

COMPLIANCE SECTION

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2014

Federal Grantor/State Pass-Through Grantor/ Program Title	Pass-through Entity Identification Number	Federal CFDA Number	Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<u>Pass-through payments:</u>			
<u>Office of Community Planning and Development:</u>			
Community Development Block Grants / Entitlement Grants	Not Provided	14.218	\$ 90,000
Total Department of Housing and Urban Development			<u>90,000</u>
DEPARTMENT OF JUSTICE, OFFICE OF JUSTICE PROGRAMS, BUREAU OF JUSTICE ASSISTANCE:			
<u>Direct payments:</u>			
<u>Criminal Division Office:</u>			
Equitable Sharing Program		16.922	89,905
<u>Pass-through payments:</u>			
<u>VA Department of Criminal Justice:</u>			
Edward Byrne Memorial Justice Assistance Grant Program	13-L1047-LO12	16.738	2,985
	14-M1047-LO13	16.738	<u>2,421</u>
Total Department of Justice, Office of Justice Programs, Bureau of Justice Assistance			<u>95,311</u>
DEPARTMENT OF TRANSPORTATION:			
<u>Pass-through payments:</u>			
<u>VA Department of Transportation:</u>			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	U000-235-544,N501	20.205	226,379
	U000-235-113,P101	20.205	35,893
	EN03-235-121	20.205	31,169
<u>VA Department of Conservation and Recreation:</u>			
Highway Planning and Construction Cluster:			
Recreation Trails Program	NRT-11FY(001)-VRT-277	20.219	<u>200,000</u>
Total Highway Planning and Construction Cluster			<u>493,441</u>
<u>VA Department of Motor Vehicles:</u>			
State and Community Highway Safety	SC- 2013-534115-126	20.600	7,873
	SC- 2014-540225-276	20.600	10,400
Alcohol Open Container Requirements	154AL-2013-530383-5098	20.607	3,253
	154AL-2014-540111-5259	20.607	<u>14,520</u>
Total Department of Transportation			<u>529,487</u>
Total Federal Awards Expended			<u>\$ 714,798</u>

TOWN OF HERNDON, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Herndon, Virginia and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Nonmonetary deferral assistance including food commodities is considered federal assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule of Expenditures of Federal Awards.

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule of Expenditures of Federal Awards.

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for the town were determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

Cluster of Programs – Closely related programs that share common compliance requirements are grouped into clusters of programs. A cluster of programs is considered as one federal program for determining major programs. The cluster administered by the town is the Highway Planning and Construction Cluster.

Note 2. Relationship to the Basic Financial Statements

For fiscal year 2014, the town recognized amounts in the Schedule of Expenditures of Federal Awards (SEFA) associated with prior year expenditures. Expenditures should be recognized in the fiscal year spent for reporting purposes. In the current fiscal year, \$27,322 of prior year expenditures related to the ARRA-Highway Infrastructure Investment Grant (CFDA #20.205) were included in the SEFA. The Highway Infrastructure Investment Grant expenditures were not included in the prior year SEFA due to the town's failure to properly record the expenditures in the prior year. The expenditures had been incurred and reported in the town's financial statements but were not reflected in the prior year SEFA. As a result of this omission, the town included the expenditures in the current year SEFA.



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of Council
Town of Herndon, Virginia
Herndon, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the town's basic financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the town's internal control. Accordingly, we do not express an opinion on the effectiveness of the town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the town's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

YB Mares, LLP

Harrisonburg, Virginia
November 21, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and Members of Council
Town of Herndon, Virginia
Herndon, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Town of Herndon, Virginia's (town) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the town's major federal programs for the year ended June 30, 2014. The town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the town's compliance.

Opinion on Each Major Federal Program

In our opinion, the town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

YB Mares, LLP

Harrisonburg, Virginia
November 21, 2014

TOWN OF HERNDON, VIRGINIA

Page 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal awards

Internal control over major program:

Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
--	------------------------------	--

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
-------------	------------------------------------

Highway Planning and Construction Cluster:

20.205	Highway Planning and Construction
20.219	Recreation Trails Program

Dollar threshold used to distinguish between type A and type B programs	\$300,000
---	-----------

Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
--	------------------------------	--

II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

TOWN OF HERNDON, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

The was no single audit performed in the prior year, therefore, there are no prior audit findings to report.