

**TOWN OF BROADWAY, VIRGINIA**  
**FINANCIAL AND COMPLIANCE REPORTS**  
**JUNE 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council  
Town of Broadway  
Broadway, VA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Broadway, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Broadway's management. 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 and 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Broadway, Virginia, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2012, on our consideration of the Town of Broadway's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

**Young, Nicholas, Branner & Phillips, LLP**  
Certified Public Accountants

1041 South High Street • P.O. Box 2187  
Harrisonburg, VA 22801  
(540) 433-2581 • FAX (540) 433-0147

To the Honorable Town Council  
Town of Broadway

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Broadway's financial statements as a whole. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Young, Nicholas, Branner & Phillips, LLP*

Harrisonburg, VA  
October 16, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Town of Broadway's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2012. Please read it in conjunction with the Town's financial statements, which begin on page 12.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Town exceeded its liabilities by \$13,392,796 at the close of the most recent fiscal year.
- The Town's net assets increased as a result of this year's operations. While net assets of the business-type activities decreased by \$1,038,256, net assets of the governmental activities increased by \$1,297,867.
- In the Town's business-type activities, operating revenues increased by \$67,343 from the previous year while operating expenses decreased by \$94,278.
- In the Town's governmental activities, operating revenues increased by \$49,491 from the previous year while operating expenses decreased by \$7,529.
- Actual revenues were \$136,944 more than budgeted for the General Fund. General Fund expenditures were \$46,702 less than budgeted.
- Operating revenues were \$4,939 more than budgeted for the Water Fund. Water Fund operating expenses, excluding depreciation, were \$27,472 more than budgeted.
- Operating revenues were \$68,936 more than budgeted for the Sewer Fund. Sewer Fund operating expenses, excluding depreciation and amortization, were \$58,970 less than budgeted. In addition, interest expense was \$7,248 less than budgeted.
- The Town added \$624,846 in capital additions during the current fiscal year.
- The Town's long-term debt increased by \$64,444 during the current fiscal year.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

## Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that help answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net assets* and changes in them. You can think of the Town's net assets-the difference between assets and liabilities-as one way to measure the Town's financial health, or *financial position*. Over time, *increases* or *decreases* in the Town's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property base and condition of the Town's roads, to assess the *overall health* of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

- *Governmental activities*-Most of the Town's basic services are reported here, including public safety, public works, community development, cultural and recreation and general administration. Property taxes, other local taxes and state and federal grants finance most of these activities.
- *Business-type activities*-The Town charges a fee to customers/users to help it cover all or most of the cost of certain services it provides. The Town's water and sewer systems and RBEG Fund are reported here.

## Reporting the Town's Most Significant Funds

The fund financial statements begin on page 14 and provide detailed information about the Town's funds-not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds-*governmental* and *proprietary*-use different accounting approaches.

- *Governmental fund*-Most of the Town's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Town's fund balance by law, creditors, Town Council, and the Town's annually adopted budget. Unassigned fund balance is available for spending for any purpose. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and the governmental *fund* in reconciliations following the fund financial statements.
- *Proprietary funds*-When the Town charges customers/users for the services provided it is reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## THE TOWN AS TRUSTEE

The Town is the trustee, or fiduciary, for the IDA Fund. All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets on pages 24 and 25. Since this fund is custodial in nature (i.e. assets equal liabilities) it does not involve the measurement of results of operations. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

## THE TOWN AS A WHOLE

The Town's *combined* net assets changed modestly from a year ago – *increasing* from \$13,133,185 to \$13,392,796. During the year, the net assets of the governmental activities increased by 121.76 percent and business-type activities decreased by 8.60 percent. Below is a summary of the net assets as of June 30, 2012 and 2011.

NET ASSETS						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 626,823	\$ 546,413	\$ 1,298,916	\$ 2,418,448	\$ 1,925,739	\$ 2,964,861
Capital assets	<u>2,850,234</u>	<u>2,454,078</u>	<u>20,194,489</u>	<u>20,635,514</u>	<u>23,044,723</u>	<u>23,089,592</u>
Total assets	<u>\$ 3,477,057</u>	<u>\$ 3,000,491</u>	<u>\$ 21,493,405</u>	<u>\$23,053,962</u>	<u>\$ 24,970,462</u>	<u>\$ 26,054,453</u>
Long-term liabilities	\$ 500,000	\$ -	\$ 10,214,444	\$10,650,000	\$ 10,714,444	\$ 10,650,000
Other liabilities	<u>613,285</u>	<u>1,934,586</u>	<u>249,937</u>	<u>336,682</u>	<u>863,222</u>	<u>2,271,268</u>
Total liabilities	<u>\$ 1,113,285</u>	<u>\$ 1,934,586</u>	<u>\$ 10,464,381</u>	<u>\$10,986,682</u>	<u>\$ 11,577,666</u>	<u>\$ 12,921,268</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 2,365,292	\$ 2,454,078	\$ 10,029,013	\$10,037,042	\$ 12,394,305	\$ 12,491,120
Unrestricted	<u>(1,520)</u>	<u>(1,388,173)</u>	<u>1,000,011</u>	<u>2,030,238</u>	<u>998,491</u>	<u>642,065</u>
Total net assets	<u>\$ 2,363,772</u>	<u>\$ 1,065,905</u>	<u>\$ 11,029,024</u>	<u>\$12,067,280</u>	<u>\$ 13,392,796</u>	<u>\$ 13,133,185</u>

The largest portion of the Town's net assets (92.5 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently these assets are not 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 themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets (\$998,491) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net assets for the governmental and business-type activities for the years ended June 30, 2012 and 2011.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Charges for services	\$ 244,582	\$ 262,526	\$ 3,152,063	\$ 3,116,821	\$ 3,396,645	\$ 3,379,347
General property taxes	267,836	266,480	-	-	267,836	266,480
Other local taxes	558,956	568,610	-	-	558,956	568,610
Intergovernmental	199,813	124,682	-	-	199,813	124,682
Miscellaneous	<u>1,669</u>	<u>1,067</u>	<u>40,240</u>	<u>8,139</u>	<u>41,909</u>	<u>9,206</u>
Total revenues	<u>\$ 1,272,856</u>	<u>\$ 1,223,365</u>	<u>\$ 3,192,303</u>	<u>\$ 3,124,960</u>	<u>\$ 4,465,159</u>	<u>\$ 4,348,325</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Program expenses</b>						
General government	\$ 378,338	\$ 360,650	\$ -	\$ -	\$ 378,338	\$ 360,650
Public safety	373,666	377,113	-	-	373,666	377,113
Public works	264,028	271,747	-	-	264,028	271,747
Cultural and recreation	133,891	128,599	-	-	133,891	128,599
Community development	26,457	45,800	-	-	26,457	45,800
Other	-	-	2,764	235	2,764	235
Water	-	-	561,924	606,077	561,924	606,077
Sewer	-	-	2,173,558	2,226,212	2,173,558	2,226,212
Total expenses	<u>\$ 1,176,380</u>	<u>\$ 1,183,909</u>	<u>\$ 2,738,246</u>	<u>\$ 2,832,524</u>	<u>\$ 3,914,626</u>	<u>\$ 4,016,433</u>
Operating income (loss)	<u>\$ 96,476</u>	<u>\$ 39,456</u>	<u>\$ 454,057</u>	<u>\$ 292,436</u>	<u>\$ 550,533</u>	<u>\$ 331,892</u>
<b>Nonoperating</b>						
Interest income	\$ 4,045	\$ 6,304	\$ 13,667	\$ 22,504	\$ 17,712	\$ 28,808
Rental income	5,000	12,000	33,959	33,224	38,959	45,224
Spring lease	-	-	(5,000)	(5,805)	(5,000)	(5,805)
Interest expense	-	-	(398,752)	(602,829)	(398,752)	(602,829)
Total nonoperating	<u>\$ 9,045</u>	<u>\$ 18,304</u>	<u>\$ (356,126)</u>	<u>\$ (552,906)</u>	<u>\$ (347,081)</u>	<u>\$ (534,602)</u>
Income (loss) before contributions and transfers	\$ 105,521	\$ 57,760	\$ 97,931	\$ (260,470)	\$ 203,452	\$ (202,710)
Contributions	10,000	-	46,159	240,604	56,159	240,604
Transfers	<u>1,182,346</u>	<u>(175,628)</u>	<u>(1,182,346)</u>	<u>175,628</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 1,297,867</u>	<u>\$ (117,868)</u>	<u>\$ (1,038,256)</u>	<u>\$ 155,762</u>	<u>\$ 259,611</u>	<u>\$ 37,894</u>

The Town's total revenues increased by \$116,834 (2.7 percent), while the total cost of all programs and services decreased by \$101,807 (2.5 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

### Governmental Activities

Operating revenues for the Town's governmental activities increased by \$49,491 (4.0 percent) while operating expenses decreased by \$7,529 (0.6 percent). The factors driving these results include:

#### Revenues

- *Charges for services* overall decreased by \$17,944. The most significant decreases within this category were for public safety which decreased by \$6,903 due to a reduction in the amount of fines, zoning fees which decreased by \$6,001 due to the downturn in the economy, and the rental of snow removal equipment which decreased \$5,330 due to the unusually warm winter.
- *General property taxes* increased by \$1,356. Personal property taxes increased by \$1,613 due to a slightly higher taxable value of machinery and tools.
- *Other local taxes* decreased by \$9,654. The most significant decreases within this category were for business licenses which decreased \$7,022 due to the downturn in the economy, and motor vehicle licenses which decreased \$5,462 due to a reduction in the amount of past due items.
- *Intergovernmental revenues* increased by \$75,131. The Town received a Rural Business Enterprise Grant and an Energy Conservation Grant during FY 2012.



### Expenses

- *General government administration* overall increased by \$17,688. The most significant increase for this category was miscellaneous (\$8,278). This was due to the Town's purchasing equipment that was under its capitalization threshold. Accounting fees also increased by \$4,750. This was due to the Town's population increasing to over 3,500, which required an increased level of auditing and reporting.
- *Public safety* overall decreased by \$3,447. The most significant decreases were for police salaries, payroll taxes and employee benefits which decreased by \$6,058. The police department was one person short for part of the year. Uniforms and supplies increased by \$2,869.
- *Public works* overall decreased by \$7,719. Electricity expense for street lights decreased by \$4,234 due to the timing of the receipt of bills. Beautification decreased by \$2,522.
- *Cultural and recreation* overall increased by \$5,292. The most significant increases were for utilities and fuel (\$2,582) and contractual services (\$2,411). This was due to increased usage of the Park.
- *Community development* overall decreased by \$19,343. This was due to a position at Broadway Hometown Partnership's becoming volunteer.

### Contributions

- *Contributions* increased by \$10,000. This increase was due to the donation of funds to purchase land for a Farmers' Market.

### **Business-Type Activities**

Operating revenues for the Town's business-type activities increased by \$67,343 (2.2 percent) and operating expenses decreased by \$94,278 (3.3 percent). The factors driving these results include:

#### Revenues

- *Water and sewer revenues* increased by \$67,343. Much of this increase can be attributed to the wastewater contract fees (\$158,848). Conversely, sludge revenue decreased \$81,288. This is a result of excess sludge from a one-time removal in the previous fiscal year.

#### Expenses

- *Water and sewer expenses* decreased overall by \$94,278. The largest decrease in expenses was due to the chemicals used at the wastewater treatment plant (\$90,282). This is a result of new processes at the wastewater treatment plant.

The Town's business-type activities also included decreases in interest expense of \$204,077. Interest expense decreased as scheduled loan payments began to reduce the principal balance of the debt. The Town's business-type activities also included capital contributions of \$46,159 from the Department of Environmental Quality Water Quality Improvement grant.

## THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 14) reported a fund balance of \$ - , which is an increase of \$1,378,892 over last year's total of (\$1,378,892).

The primary reasons for the General Fund's increase mirror the changes noted in the previous section under "governmental" activities plus changes for capital outlay and transfers from other funds. During the year, the Town disbursed \$506,424 on capital outlay. This was an increase of \$392,488 over the prior year. In addition, the Town transferred \$1,357,690 from its Water Fund to resolve a negative fund balance in the General Fund.

As the Town completed the year, its proprietary funds (as presented in the balance sheets on pages 18 and 19) reported net assets of \$11,029,024, which is a decrease of \$1,038,256 over last year's total of \$12,067,280. Significant changes in the change in net assets are noted in the previous section under "business-type" activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council revised the Town budget once. The purpose of this amendment was for:

- Purchase of the old Ace Hardware building
- Purchase of the existing library building
- Renovation of the existing library building
- Purchase of Farmers' Market lot not covered by grant
- Park capital outlay

The significant variations of actual results to the final General Fund budget are summarized below:

<u>Account</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>	
Federal grants	\$ 60,566
General property taxes	35,500
Other local taxes	25,457
Charges for services	23,967
Permits, privilege fees, and regulatory licenses	(1,791)
Commonwealth of Virginia grants	(2,375)
Use of money and property	(4,127)
Fines and forfeitures	(9,922)
<b>Expenditures</b>	
<i>General Government Administration</i>	
Capital outlay	\$ 110,368
Professional services	(14,792)
<i>Public Safety</i>	
Capital outlay	10,000
Vehicle maintenance	(14,035)
<i>Public Works</i>	
Street maintenance	3,359
Trash removal - recycling	(7,312)
<i>Cultural &amp; Recreation</i>	
Park operating expense	(8,465)
Capital outlay	(27,791)
<i>Community Development</i>	
Economic development	18,633

Federal grants increased this year because the Town received a Rural Business Enterprise Grant and an Energy Conservation Grant. General property taxes increased more than expected due to an increase in taxable machinery and tools. Other local taxes were higher than budget due to a slightly unexpected increase in sales and meals taxes. The positive variance in charges for services was due to higher than expected park revenue.

The positive variance of \$110,368 in capital outlay was due to the Town's postponing the erection of a building at the Farmers' Market. The positive variance of \$18,633 in Economic Development was due to a position at Broadway Hometown Partnership's becoming fully volunteer. The negative variance of \$14,792 in professional services was due to a combination of bond issuance costs and higher audit fees as a result of increased regulation. The positive variance in public safety capital outlay of \$10,000 was due to there not being any capital purchases in excess of the Town's capitalization threshold. The negative variance in vehicle maintenance was due to higher fuel costs. The negative variance for park capital outlay was due to the renovations at the Community Center.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the Town had \$23.04 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water and sewer systems. (See table below.) This represents a net increase of \$44,869, or 0.2 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 903,191	\$ 848,124	\$ 143,397	\$ 143,397	\$ 1,046,588	\$ 991,521
Buildings	684,848	253,810	-	-	684,848	253,810
Equipment	83,702	122,229	492,696	524,141	576,398	646,370
Infrastructure	583,829	610,754	-	-	583,829	610,754
Utility system	-	-	19,558,396	19,967,976	19,558,396	19,967,976
Park and improvements	594,664	619,161	-	-	594,664	619,161
Totals	<u>\$ 2,850,234</u>	<u>\$ 2,454,078</u>	<u>\$ 20,194,489</u>	<u>\$ 20,635,514</u>	<u>\$ 23,044,723</u>	<u>\$ 23,089,592</u>

This year's major additions included:

Building, 175 N. Main Street	\$ 341,796
Community Center renovation	69,214
Farmer's Market land	42,161
Professional services at WWTF	36,865
Farmers' Market parking lot and retaining wall	24,288
Correlator	18,590
Pump	18,408
Land, 175 N. Main Street	12,906
Holly Hill sewer line	12,180
	<u>\$ 576,408</u>

**Debt**

At year-end, the Town had \$10,714,444 in outstanding loans compared to \$10,650,000 last year. This is an increase of 0.6 percent as shown in the following tables.

**Governmental Activities**

	<b>Outstanding June 30,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Branch Banking & Trust, series 2012A bond	\$ 350,000	\$ -
Branch Banking & Trust, series 2012B bond	<u>150,000</u>	<u>-</u>
	<u>\$ 500,000</u>	<u>\$ -</u>

The Town was advanced \$500,000 from the sale of bonds by Branch Banking & Trust Company during FY 2012.

**Business-Type Activities**

	<b>Outstanding June 30,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
SunTrust Bond	\$ 300,000	\$ 350,000
Bonds payable (Virginia Resources Authority)	<u>9,914,444</u>	<u>10,300,000</u>
	<u>\$ 10,214,444</u>	<u>\$ 10,650,000</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The proposed budget for FY 2012-2013 is \$4,583,500, a decrease of 5.0 percent over the previous year. The decline in the Town's budget is due to the completion of the construction at the wastewater facility during FY 2012.

The budget reflects an increase in real estate tax revenue of 0.6 percent based on valuation of the property. The Town will retain its real estate tax rate at \$.07 per \$100.

Tax rates remain at the same level as FY 2011-2012. Trash and recycling charges will increase by \$1.00 per month.

Parks revenue is projected to remain the same during FY 2012-2013. This function accounts for \$40,000 or 2.7 percent of the General Fund budget.

The Water Fund revenues are expected to increase 12.2 percent over last year. Connection fee revenues are expected to remain the same. A 15 percent increase to the water rates was necessary to offset rising costs and preparation for spring construction in the future. Expenses are expected to decrease by 1.7 percent over the current year.

The Sewer Fund revenues are expected to decrease by 3.6 percent over the current year. The budget reflects the decline in sludge revenue due to a one-time sludge removal. Expenses are projected to decrease by 4.5 percent over the current year. This decrease is due to the decrease in sludge expenses from the one-time sludge removal.

In conclusion, the proposed budget is balanced in accordance with state statutes, and revenues are based on conservative estimates, while expenditures are based on historical data, as well as actual proposed costs.

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 116 Broadway Avenue, Broadway, VA.

## **Government-Wide Financial Statements**

## TOWN OF BROADWAY, VIRGINIA

## STATEMENT OF NET ASSETS

June 30, 2012

	----- Primary Government -----		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 172,169	\$ 773,092	\$ 945,261
Investments	4,163	1,913	6,076
Receivables, net of allowances for uncollectible amounts:			
Property taxes	315,550	-	315,550
Accounts and other	56,263	193,084	249,347
Due from other governmental units	63,620	-	63,620
Internal balances	(238,494)	238,494	-
Note receivable, current portion	-	8,204	8,204
Inventory	-	34,773	34,773
Prepaid expenses	-	388	388
Capital assets:			
Non-depreciable	903,191	143,397	1,046,588
Depreciable, net of accumulated depreciation	1,947,043	20,051,092	21,998,135
Unamortized bond discount	-	39,255	39,255
Unamortized loan costs	15,058	9,713	24,771
<b>Total assets</b>	<u>\$ 3,238,563</u>	<u>\$ 21,493,405</u>	<u>\$ 24,731,968</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 58,584	\$ 78,038	\$ 136,622
Accrued liabilities	168	-	168
Accrued benefits	-	94	94
Connection fees payable	-	4,600	4,600
Accrued compensated absences	18,724	38,138	56,862
Accrued interest payable	954	99,230	100,184
Customer deposits	-	28,250	28,250
Deferred revenues, property taxes	296,361	-	296,361
Unearned revenue	-	1,587	1,587
Long-term liabilities:			
Due within one year	27,574	450,963	478,537
Due in more than one year	472,426	9,763,481	10,235,907
<b>Total liabilities</b>	<u>\$ 874,791</u>	<u>\$ 10,464,381</u>	<u>\$ 11,339,172</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,365,292	\$ 10,029,013	\$ 12,394,305
Unrestricted	(1,520)	1,000,011	998,491
<b>Total net assets</b>	<u>\$ 2,363,772</u>	<u>\$ 11,029,024</u>	<u>\$ 13,392,796</u>

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012

Functions/ Programs	Expenses	----- Program Revenues -----			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	----- Primary Government -----		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government administration	\$ 378,338	\$ 2,209	\$ -	\$ 73,934	\$ (302,195)	\$ -	\$ (302,195)
Public safety	373,666	4,078	72,893	-	(296,695)	-	(296,695)
Public works	264,028	178,049	-	-	(85,979)	-	(85,979)
Cultural and recreation	133,891	60,246	5,000	22,000	(46,645)	-	(46,645)
Community development	<u>26,457</u>	-	-	-	<u>(26,457)</u>	-	<u>(26,457)</u>
Total governmental activities	<u>\$ 1,176,380</u>	<u>\$ 244,582</u>	<u>\$ 77,893</u>	<u>\$ 95,934</u>	<u>\$ (757,971)</u>	<u>\$ -</u>	<u>\$ (757,971)</u>
<b>Business-type activities:</b>							
Water	\$ 566,924	\$ 457,898	\$ -	\$ -	\$ -	\$ (109,026)	\$ (109,026)
Sewer	2,572,310	2,767,936	-	46,159	-	241,785	241,785
RBEG	<u>2,764</u>	<u>428</u>	-	-	-	<u>(2,336)</u>	<u>(2,336)</u>
Total business-type activities	<u>\$ 3,141,998</u>	<u>\$ 3,226,262</u>	<u>\$ -</u>	<u>\$ 46,159</u>	<u>\$ -</u>	<u>\$ 130,423</u>	<u>\$ 130,423</u>
Total primary government	<u>\$ 4,318,378</u>	<u>\$ 3,470,844</u>	<u>\$ 77,893</u>	<u>\$ 142,093</u>	<u>\$ (757,971)</u>	<u>\$ 130,423</u>	<u>\$ (627,548)</u>
General revenues:							
General property taxes					\$ 267,836	\$ -	\$ 267,836
Other local taxes					558,956	-	558,956
Unrestricted revenue from the use of money and property					9,045	13,667	22,712
Grants and contributions not restricted to specific programs					35,986	-	35,986
Transfers					1,182,346	(1,182,346)	-
Miscellaneous					<u>1,669</u>	-	<u>1,669</u>
Total general revenues					<u>\$ 2,055,838</u>	<u>\$ (1,168,679)</u>	<u>\$ 887,159</u>
Change in net assets					\$ 1,297,867	\$ (1,038,256)	\$ 259,611
Net assets at beginning of year					<u>1,065,905</u>	<u>12,067,280</u>	<u>13,133,185</u>
Net assets at end of year					<u>\$ 2,363,772</u>	<u>\$ 11,029,024</u>	<u>\$ 13,392,796</u>

See Notes to Financial Statements.



## **Fund Financial Statements**

## TOWN OF BROADWAY, VIRGINIA

----GOVERNMENTAL FUND----  
**BALANCE SHEET**  
**June 30, 2012**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 172,169
Investments	4,163
Receivables (net of allowance for uncollectibles):	
Property taxes	315,550
Other taxes	23,598
Other	32,666
Due from other governmental units	<u>63,620</u>
<b>Total assets</b>	<u><u>\$ 611,766</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 58,584
Due to other funds	238,495
Accrued liabilities	168
Deferred revenue, property taxes	<u>314,519</u>
<b>Total liabilities</b>	<u><u>\$ 611,766</u></u>
<b>Fund Balance</b>	
Unassigned	<u>\$ -</u>
<b>Total fund balance</b>	<u><u>\$ -</u></u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 611,766</u></u>

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2012**

**FUND BALANCE-TOTAL GOVERNMENTAL FUND**

\$ -

Amounts reported for governmental activities in the statement of  
net assets are different because:

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

Governmental capital assets	\$ 3,502,569	
Less accumulated depreciation	<u>(652,335)</u>	2,850,234

Certain revenues not available to pay for current period  
expenditures are not reported in the governmental funds.

Deferred revenue, property taxes	\$ <u>18,158</u>	18,158
----------------------------------	------------------	--------

Certain liabilities are not payable from current financial  
resources and therefore are not reported in the governmental  
fund.

Accrued interest payable	\$ (954)	
Compensated absences	<u>(18,724)</u>	(19,678)

Long-term liabilities are not due and payable in the current  
period and, therefore, are not reported in the governmental  
fund balance sheet.

Bonds payable	\$ (500,000)	
Unamortized costs	<u>15,058</u>	<u>(484,942)</u>

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**\$ 2,363,772

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2012**

	<u><b>General Fund</b></u>
<b>REVENUES</b>	
General property taxes	\$ 264,778
Other local taxes	558,957
Permits, privilege fees, and regulatory licenses	2,209
Fines and forfeitures	4,078
Revenue from the use of money and property	13,373
Charges for services	233,967
Miscellaneous	11,669
Intergovernmental revenues:	
Commonwealth	103,247
Federal	96,566
Total revenues	<u>\$ 1,288,844</u>
<b>EXPENDITURES</b>	
General government administration	\$ 811,690
Public safety	346,595
Public works	233,744
Cultural and recreation	173,812
Community development	26,457
Total expenditures	<u>\$ 1,592,298</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (303,454)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Bond proceeds	\$ 500,000
Transfers in	1,405,690
Transfers out	<u>(223,344)</u>
Total other financing sources (uses)	<u>\$ 1,682,346</u>
Net change in fund balance	\$ 1,378,892
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>(1,378,892)</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ -</u></u>

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

**---GOVERNMENTAL FUND---**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2012**

**NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND** **\$ 1,378,892**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

Expenditures for capital assets	\$ 506,424	
Less current year depreciation	<u>(110,268)</u>	396,156

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.

Property taxes	\$ <u>3,058</u>	3,058
----------------	-----------------	-------

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 the governmental funds.

Change in accrued interest	\$ (954)	
Change in long-term compensated absences	<u>5,657</u>	4,703

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, whereas the amounts are deferred and amortized on the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bonds issued	\$ (500,000)	
Bond issuance costs	<u>15,058</u>	<u>(484,942)</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 1,297,867**

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

## ---- PROPRIETARY FUNDS ----

## BALANCE SHEETS

June 30, 2012

	----- Enterprise Funds -----			Total
	Water	Sewer	RBEG	Enterprise Funds
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 205,819	\$ 467,832	\$ 71,191	\$ 744,842
Restricted cash and cash equivalents, deposits	28,250	-	-	28,250
Investments	-	1,913	-	1,913
Accounts receivable	133,429	59,655	-	193,084
Due from other funds	1,368,774	-	-	1,368,774
Note receivable, current portion	-	-	8,204	8,204
Inventory	32,062	2,711	-	34,773
Prepaid expenses	-	388	-	388
Total current assets	<u>\$ 1,768,334</u>	<u>\$ 532,499</u>	<u>\$ 79,395</u>	<u>\$ 2,380,228</u>
Noncurrent assets:				
Capital assets:				
Land	\$ 63,841	\$ 79,556	\$ -	\$ 143,397
Utility plants, distribution and collection systems	3,354,307	19,225,999	-	22,580,306
Equipment	241,514	679,238	-	920,752
Less accumulated depreciation	(1,562,941)	(1,887,025)	-	(3,449,966)
Unamortized bond discount	-	39,255	-	39,255
Unamortized loan costs	-	9,713	-	9,713
Total noncurrent assets	<u>\$ 2,096,721</u>	<u>\$ 18,146,736</u>	<u>\$ -</u>	<u>\$ 20,243,457</u>
<b>Total assets</b>	<u><b>\$ 3,865,055</b></u>	<u><b>\$ 18,679,235</b></u>	<u><b>\$ 79,395</b></u>	<u><b>\$ 22,623,685</b></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 9,601	\$ 68,437	\$ -	\$ 78,038
Due to other funds	-	1,130,280	-	1,130,280
Connection fees payable	-	4,600	-	4,600
Accrued interest payable	-	99,230	-	99,230
Accrued benefits	35	59	-	94
Compensated absences	12,859	25,279	-	38,138
Deposits	28,250	-	-	28,250
Unearned revenue	1,587	-	-	1,587
Bonds, notes and loans payable	-	450,963	-	450,963
Total current liabilities	<u>\$ 52,332</u>	<u>\$ 1,778,848</u>	<u>\$ -</u>	<u>\$ 1,831,180</u>
Noncurrent liabilities:				
Bonds, notes and loans payable	<u>\$ -</u>	<u>\$ 9,763,481</u>	<u>\$ -</u>	<u>\$ 9,763,481</u>
Total noncurrent liabilities	<u>\$ -</u>	<u>\$ 9,763,481</u>	<u>\$ -</u>	<u>\$ 9,763,481</u>
<b>Total liabilities</b>	<u><b>\$ 52,332</b></u>	<u><b>\$ 11,542,329</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 11,594,661</b></u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

## ---- PROPRIETARY FUNDS ----

## BALANCE SHEETS

June 30, 2012

	----- Enterprise Funds -----			Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 2,096,721	\$ 7,932,292	\$ -	\$ 10,029,013
Unrestricted	<u>1,716,002</u>	<u>(795,386)</u>	<u>79,395</u>	<u>1,000,011</u>
<b>Total net assets</b>	<u>\$ 3,812,723</u>	<u>\$ 7,136,906</u>	<u>\$ 79,395</u>	<u>\$ 11,029,024</u>
<b>Total liabilities and net assets</b>	<u>\$ 3,865,055</u>	<u>\$ 18,679,235</u>	<u>\$ 79,395</u>	<u>\$ 22,623,685</u>

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF REVENUES, EXPENSES,  
 AND CHANGES IN NET ASSETS**  
 Year Ended June 30, 2012

	----- Enterprise Funds -----			Total Enterprise Funds
	Water	Sewer	RBEG	
<b>OPERATING REVENUES</b>				
Wastewater contracts	\$ -	\$ 2,018,442	\$ -	\$ 2,018,442
Charges for services	366,824	319,273	-	686,097
Connection fees	48,000	49,600	-	97,600
Sludge revenue	-	349,496	-	349,496
Interest earned on loans	-	-	428	428
Miscellaneous	9,115	31,125	-	40,240
Total operating revenues	<u>\$ 423,939</u>	<u>\$ 2,767,936</u>	<u>\$ 428</u>	<u>\$ 3,192,303</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	\$ 210,720	\$ 328,423	\$ -	\$ 539,143
Employee benefits	36,094	101,171	-	137,265
Payroll taxes	15,872	24,875	-	40,747
Water purchase, Co-Op	49,498	-	-	49,498
Chemicals	37,038	304,559	-	341,597
Insurance	10,494	10,715	-	21,209
Lab testing	-	67,422	-	67,422
Miscellaneous	1,857	7,037	-	8,894
Postage	1,322	1,317	-	2,639
Professional fees	2,572	9,461	-	12,033
Repairs and maintenance	51,117	130,187	-	181,304
Supplies	1,417	3,005	-	4,422
Sludge removal	-	302,865	-	302,865
Utilities and fuel	33,272	425,012	-	458,284
Telephone	2,202	5,981	-	8,183
Vehicle maintenance	8,333	-	-	8,333
Bad debts	-	-	2,719	2,719
Service charges	-	-	45	45
Water feasibility study	11,164	-	-	11,164
Amortization	-	2,560	-	2,560
Depreciation	88,952	448,968	-	537,920
Total operating expenses	<u>\$ 561,924</u>	<u>\$ 2,173,558</u>	<u>\$ 2,764</u>	<u>\$ 2,738,246</u>
Operating income (loss)	<u>\$ (137,985)</u>	<u>\$ 594,378</u>	<u>\$ (2,336)</u>	<u>\$ 454,057</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest earned	\$ 3,244	\$ 7,558	\$ 129	\$ 10,931
Rental income	33,959	-	-	33,959
Spring lease fees	(5,000)	-	-	(5,000)
Unrealized gain on investments	-	2,736	-	2,736
Interest expense	-	(398,752)	-	(398,752)
Total nonoperating revenues (expenses)	<u>\$ 32,203</u>	<u>\$ (388,458)</u>	<u>\$ 129</u>	<u>\$ (356,126)</u>
Income (loss) before contribution and transfers	<u>\$ (105,782)</u>	<u>\$ 205,920</u>	<u>\$ (2,207)</u>	<u>\$ 97,931</u>

(Continued)



## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF REVENUES, EXPENSES,  
 AND CHANGES IN NET ASSETS**  
 Year Ended June 30, 2012

	----- Enterprise Funds -----			Total
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	<u>Enterprise Funds</u>
<b>CAPITAL CONTRIBUTION AND TRANSFERS</b>				
Capital contribution:				
DEQ Water Quality Improvement grant	\$ -	\$ 46,159	\$ -	\$ 46,159
Transfers in	519,565	5,032	48,000	572,597
Transfers out	<u>(1,360,934)</u>	<u>(346,009)</u>	<u>(48,000)</u>	<u>(1,754,943)</u>
Total contribution and transfers	<u>\$ (841,369)</u>	<u>\$ (294,818)</u>	<u>\$ -</u>	<u>\$ (1,136,187)</u>
Change in net assets	\$ (947,151)	\$ (88,898)	\$ (2,207)	\$ (1,038,256)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>4,759,874</u>	<u>7,225,804</u>	<u>81,602</u>	<u>12,067,280</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 3,812,723</u></u>	<u><u>\$ 7,136,906</u></u>	<u><u>\$ 79,395</u></u>	<u><u>\$ 11,029,024</u></u>

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF CASH FLOWS**  
**Year Ended June 30, 2012**

	----- Enterprise Funds -----			Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 429,864	\$ 2,743,558	\$ 428	\$ 3,173,850
Cash payments to suppliers of goods and services	(281,324)	(1,464,087)	(2,764)	(1,748,175)
Cash payments to employees	<u>(208,806)</u>	<u>(329,750)</u>	<u>-</u>	<u>(538,556)</u>
Net cash provided by (used in) operating activities	\$ <u>(60,266)</u>	\$ <u>949,721</u>	\$ <u>(2,336)</u>	\$ <u>887,119</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers from other funds	\$ 519,565	\$ 5,032	\$ 48,000	\$ 572,597
Operating transfers to other funds	(1,360,934)	(346,009)	(48,000)	(1,754,943)
Principal payments received on notes receivable	-	-	12,008	12,008
Advance from other funds	<u>1,082,705</u>	<u>219,813</u>	<u>-</u>	<u>1,302,518</u>
Net cash provided by (used in) noncapital financing activities	\$ <u>241,336</u>	\$ <u>(121,164)</u>	\$ <u>12,008</u>	\$ <u>132,180</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	\$ (25,174)	\$ (71,720)	\$ -	\$ (96,894)
Rental income	33,959	-	-	33,959
DEQ Water Quality Improvement grant	-	46,159	-	46,159
Principal paid on bond and loans	-	(485,556)	-	(485,556)
Interest paid	-	(403,043)	-	(403,043)
Spring lease	(5,000)	-	-	(5,000)
Loan proceeds, line of credit	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net cash provided by (used in) capital and related financing activities	\$ <u>3,785</u>	\$ <u>(864,160)</u>	\$ <u>-</u>	\$ <u>(860,375)</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF CASH FLOWS**  
 Year Ended June 30, 2012

	----- Enterprise Funds -----			Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest earned	\$ 3,244	\$ 7,558	\$ 129	\$ 10,931
Net cash provided by (used in) investing activities	\$ 3,244	\$ 7,558	\$ 129	\$ 10,931
Net increase (decrease) in cash and cash equivalents	\$ 188,099	\$ (28,045)	\$ 9,801	\$ 169,855
<b>Cash and cash equivalents:</b>				
Beginning	45,970	497,790	61,390	605,150
Ending	\$ 234,069	\$ 469,745	\$ 71,191	\$ 775,005
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO PROPRIETARY FUND BALANCE SHEETS</b>				
Unrestricted cash and cash equivalents	\$ 205,819	\$ 467,832	\$ 71,191	\$ 744,842
Restricted cash and cash equivalents, deposits	28,250	-	-	28,250
Investments	-	1,913	-	1,913
	\$ 234,069	\$ 469,745	\$ 71,191	\$ 775,005
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (137,985)	\$ 594,378	\$ (2,336)	\$ 454,057
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Net increase in the fair value of investments	-	2,736	-	2,736
Depreciation	88,952	448,968	-	537,920
Amortization	-	2,560	-	2,560
Change in assets and liabilities:				
(Increase) decrease in inventories	(6,211)	(155)	-	(6,366)
(Increase) decrease in accounts receivable	3,045	(24,378)	-	(21,333)
(Increase) decrease in prepaid expenses	-	(1)	-	(1)
Increase (decrease) in accounts payable and accrued expenses	(10,947)	(74,387)	-	(85,334)
Increase (decrease) in deposits	2,880	-	-	2,880
Net cash provided by (used in) operating activities	\$ (60,266)	\$ 949,721	\$ (2,336)	\$ 887,119

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**----FIDUCIARY FUND----**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**June 30, 2012**

	<b>IDA</b> <b><u>Fund (Agency)</u></b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>54,177</u>
<b>Total assets</b>	<b>\$ <u>54,177</u></b>
<b>LIABILITIES</b>	
Amounts held for others	\$ <u>54,177</u>
<b>Total liabilities</b>	<b>\$ <u>54,177</u></b>

**See Notes to Financial Statements.**

## TOWN OF BROADWAY, VIRGINIA

## ---FIDUCIARY FUND---

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2012

	<b>IDA Fund (Agency)</b>
<b>ADDITIONS</b>	
Fees (revenue)	\$ 12,000
Total additions	<u>\$ 12,000</u>
 <b>DEDUCTIONS</b>	
Legal fees	\$ 198
Bank charges	<u>40</u>
Total deductions	<u>\$ 238</u>
 Change in net assets	 \$ 11,762
 <b>NET ASSETS AT BEGINNING OF YEAR</b>	 <u>42,415</u>
 <b>NET ASSETS AT END OF YEAR</b>	 <u>\$ 54,177</u>

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

The financial statements of the Town of Broadway, Virginia, conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the most significant policies:

**A. Reporting Entity**

The Town of Broadway, Virginia, is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by the Town Manager with oversight from the Mayor and Town Council. In determining the reporting entity, the Town complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity." Based on the criteria provided in that Statement there are no agencies or entities that should be presented as component units of the Town.

**B. Governmental Accounting Standards**

The Town follows the general provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement identifies the financial reporting requirements of state and local governments.

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Government-Wide Financial Statements

The Town government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

The Town applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the Town applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements, to its business-type activities.

#### Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 45 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, sales and use taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The General Fund is the Town's only governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary funds:

Water and Sewer Funds-account for the activities related to the provision of water and sewer services to Town's businesses, residents, schools, and churches. They operate the water treatment plant, water distribution systems, sewer collection systems, and pump stations.

RBEG Fund-accounts for the activities of administering the Town's Rural Business Enterprise Grant (RBEG) Program.

#### Fiduciary Fund Financial Statement

The Town's fiduciary fund is presented in the fund financial statement by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the governmental-wide financial statements.

Fiduciary funds are used to account for assets held by the Town in a trustee capacity or as agent for individuals, private organizations, and other governments. The fiduciary fund of the Town is the Industrial Development Authority (IDA) Fund. Since this fund is custodial in nature (i.e., assets equal liabilities), it does not involve the measurement of results of operations.

### **E. Assets, Liabilities and Equity**

#### Cash and Cash Equivalents

Cash of the individual funds is combined to form a pool of cash. Investment of the pooled cash consists of certificates of deposit. Interest earned as a result of the pooling is distributed to the appropriate funds utilizing a formula based on the average balance of cash and investments of each fund.

For purposes of reporting cash flows, the Town considers all cash on hand, checking accounts, savings accounts, money market funds and highly liquid instruments with a maturity of three months or less to be cash and cash equivalents. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.



## NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies (Continued)**Investments

The Town's investments are reported at fair value.

The Town is a voluntary participant in the State Treasurer's Local Government Investment Pool (LGIP). The LGIP is a special purpose state-administered investment pool offered to public entities for the investment of public funds. Statutory authority is granted by the *Code of Virginia*, and the Investment Division of the Virginia Department of the Treasury manages the Pool. The LGIP is managed similarly to a money market fund and in compliance with GASB's Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, definition of "2a-7 like pools".

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes and utility taxes. Business-type activities report utilities and interest earnings as their major receivables. The Town grants credit to the customers of its water, sewer and trash systems. The customers are either local businesses or residents.

In the fund financial statements, major receivable balances and the allowances for uncollectible accounts are the same as those in the governmental and business-type activities.

Property Taxes

Real estate and personal property taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate and personal property taxes on an annual basis (due December 5). The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2012, includes amounts not yet billed or received from the January 1, 2012, levy (due December 5, 2012). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2013.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. There was no allowance at June 30, 2012.

Inventory

Proprietary fund inventory is reported at the lower of cost (first-in, first-out method) or market.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

## NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies (Continued)**Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in the governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$2,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	20-50 years
Utility System	20-50 years
Equipment	3-10 years
Infrastructure	20-40 years

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Unamortized Bond Discount

The Town is amortizing bond discount costs by the straight-line method over the term of the bond payable.

Unamortized Debt Issue Cost

The Town is amortizing debt issue costs by the straight-line method over the term of the 2009 bond payable to the Virginia Resources Authority.

The Town is amortizing debt issue costs by the straight-line method over the term of the 2012 bonds payable to Branch Banking and Trust Company.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Long-Term Debt

The accounting treatment of the long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

#### Compensated Absences

It is the Town's policy to permit employees to accumulate earned but not used vacation and sick pay benefits. The Town pays a benefit for accumulated sick leave upon an employee's separation from service to the extent the employee meets certain criteria. Vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources as a result of employee resignations and retirements.

#### Deferred Revenue

Deferred revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met.

#### Equity Classifications

##### *Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt-consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets-consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets-all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## NOTES TO FINANCIAL STATEMENTS

## Note 1. Summary of Significant Accounting Policies (Continued)

*Fund Statements*

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.

**F. Revenues, Expenditures, and Expenses**Governmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by function for the governmental fund and by operating and nonoperating for the proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

#### Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. There were no advertising costs in 2012.

#### Fringe benefits

Fringe benefits of the Town include:

- a. Pension Plan - Employees of the Town participate in the Virginia Retirement System (VRS). VRS is administered by the Commonwealth, which bills the Town for the employer share of contributions. VRS is obligated to pay a monthly benefit to participants upon retirement with the amount of the benefit depending on length of service and earnings.
- b. Social Security System - All employees participate in the Federal Social Security Program. The employer share of FICA taxes for the employees is the responsibility of the Town.
- c. Health Insurance - The Town provides health insurance coverage for all full-time, salaried permanent employees.

### G. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the Town to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### H. Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

### Note 2. Stewardship, Compliance, and Accountability

#### A. Budgetary Information

The Town Council's control is exercised through budgeting. The Town budget is developed for informative and fiscal planning purposes only and presents an itemized listing of contemplated expenditures and estimated revenues for the ensuing fiscal year. The Town Council approves the budget after a public hearing.

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budgets for the fiscal year 2012. The final operating budget for the General Fund included carryover funds of \$20,000.

## NOTES TO FINANCIAL STATEMENTS

**Note 2. Stewardship, Compliance, and Accountability (Continued)**

A budget is also adopted for the Water and Sewer Funds as an operating guideline. Budget to actual information is shown as other supplementary information. Below is a summary of budgeted information that is not included in the Enterprise Fund's Statements of Revenues, Expenses and Changes in Net Assets- Budget and Actual:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>WATER FUND</b>			
Prior year reserves	\$ -	\$ 10,000	\$ 10,000
Capital outlay	<u>(64,000)</u>	<u>(74,000)</u>	<u>(25,174)</u>
	<u>\$ (64,000)</u>	<u>\$ (64,000)</u>	<u>\$ (15,174)</u>
<b>SEWER FUND</b>			
Capital outlay	\$ (68,200)	\$ (68,200)	\$ (56,383)
Principal paid on bonds and loans	(435,500)	(435,500)	(435,556)
Capital outlay, professional fees	<u>-</u>	<u>-</u>	<u>(36,865)</u>
	<u>\$ (503,700)</u>	<u>\$ (503,700)</u>	<u>\$ (528,804)</u>

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2012, General Fund expenditures exceeded appropriations in Public Safety by \$16,595, Public Works by \$6,244, and Cultural and Recreation by \$49,812. These over expenditures were funded by greater than expected revenues in the fund.

**Note 3. Deposits and Investments**Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2012:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>		
Checking, Park (BB&T – Virginia)	\$ 31,567	\$ 31,567
Savings (BB&T – Virginia)	1,211	1,211
Certificates of deposit (L. M. Kohn)	139,271	139,271
Petty cash	120	-
<u>Water</u>		
Checking (BB&T – Virginia)	232,429	288,855
Checking (Farmers and Merchants Bank)	1,640	1,640

## NOTES TO FINANCIAL STATEMENTS

## Note 3. Deposits and Investments (Continued)

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Sewer</u>		
Certificates of deposit (L. M. Kohn)	\$ 467,832	\$ 467,832
<u>RBEG</u>		
Checking (BB&T – Virginia)	<u>71,191</u>	<u>71,191</u>
Total reporting entity	<u>\$ 945,261</u>	<u>\$ 1,001,567</u>

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. 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 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

As of June 30, 2012, the Town had the following investment:

	<u>Fair Value</u>
Virginia State Treasurer's Local Government Investment Pool (LGIP)	<u>\$ 6,076</u>

*Credit Risk*

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Town has no investment policy that would further limit its investment choices.

The Town's investment in the State Treasurer's Local Government Investment Pool was rated AAAM by Standard & Poors. That is the highest rating assigned to money market funds.

## NOTES TO FINANCIAL STATEMENTS

**Note 4. Receivables**

Receivables as of June 30, 2012, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 315,550	\$ -	\$ 315,550
Other taxes:			
Utilities tax	13,558	-	13,558
Meals tax	10,040	-	10,040
Accounts	<u>32,666</u>	<u>193,084</u>	<u>225,750</u>
Gross receivables	\$ 371,814	\$ 193,084	\$ 564,898
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 371,814</u>	<u>\$ 193,084</u>	<u>\$ 564,898</u>

**Note 5. Due From Other Governmental Units**

Due from other governmental units consists of the following:

United States:

Department of Agriculture, Rural Business Enterprise Grant \$ 63,620

**Note 6. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 848,124	\$ 55,067	\$ -	\$ 903,191
Total capital assets not being depreciated	<u>\$ 848,124</u>	<u>\$ 55,067</u>	<u>\$ -</u>	<u>\$ 903,191</u>
Capital assets being depreciated				
Buildings	\$ 411,167	\$ 442,780	\$ -	\$ 853,947
Park and improvements	729,324	8,577	-	737,901
Machinery and equipment	296,722	-	-	296,722
Infrastructure	<u>710,808</u>	<u>-</u>	<u>-</u>	<u>710,808</u>
Total capital assets being depreciated	<u>\$ 2,148,021</u>	<u>\$ 451,357</u>	<u>\$ -</u>	<u>\$ 2,599,378</u>
Less accumulated depreciation for				
Buildings	\$ 157,357	\$ 11,742	\$ -	\$ 169,099
Park and improvements	110,163	33,074	-	143,237
Machinery and equipment	174,493	38,527	-	213,020
Infrastructure	<u>100,054</u>	<u>26,925</u>	<u>-</u>	<u>126,979</u>
Total accumulated depreciation	<u>\$ 542,067</u>	<u>\$ 110,268</u>	<u>\$ -</u>	<u>\$ 652,335</u>



## NOTES TO FINANCIAL STATEMENTS

## Note 6. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net	\$ 1,605,954	\$ 341,089	\$ -	\$ 1,947,043
<b>GOVERNMENTAL ACTIVITIES</b>				
CAPITAL ASSETS, NET	<u>\$ 2,454,078</u>	<u>\$ 396,156</u>	<u>\$ -</u>	<u>\$ 2,850,234</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 143,397	\$ -	\$ -	\$ 143,397
Total capital assets not being depreciated	<u>\$ 143,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,397</u>
Capital assets being depreciated				
Utility system	\$ 22,543,980	\$ 69,015	\$ 32,691	\$ 22,580,304
Machinery and equipment	<u>860,181</u>	<u>60,571</u>	<u>-</u>	<u>920,752</u>
Total capital assets being depreciated	<u>\$ 23,404,161</u>	<u>\$ 129,586</u>	<u>\$ 32,691</u>	<u>\$ 23,501,056</u>
Less accumulated depreciation for				
Utility system	\$ 2,576,004	\$ 445,904	\$ -	\$ 3,021,908
Machinery and equipment	<u>336,040</u>	<u>92,016</u>	<u>-</u>	<u>428,056</u>
Total accumulated depreciation	<u>\$ 2,912,044</u>	<u>\$ 537,920</u>	<u>\$ -</u>	<u>\$ 3,449,964</u>
Total capital assets being depreciated, net	<u>\$ 20,492,117</u>	<u>\$ (408,334)</u>	<u>\$ 32,691</u>	<u>\$ 20,051,092</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
CAPITAL ASSETS, NET	<u>\$ 20,635,514</u>	<u>\$ (408,334)</u>	<u>\$ (32,691)</u>	<u>\$ 20,194,489</u>

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

**GOVERNMENTAL ACTIVITIES**

General government administration	\$ 13,261
Public safety	28,852
Public works	30,285
Cultural and recreation	<u>37,870</u>

Total depreciation expense-governmental activities \$ 110,268

**BUSINESS-TYPE ACTIVITIES**

Water	\$ 88,952
Sewer	<u>448,968</u>

Total depreciation expense-business-type activities \$ 537,920

## NOTES TO FINANCIAL STATEMENTS

**Note 7. Deferred & Unearned Revenue**

The following is a summary of deferred and unearned revenue by fund/activity at June 30, 2012:

**Fund Statements**

	<u>General Fund</u>
Property taxes billed in fiscal year 2013	\$ 296,361
Uncollected property tax billing	<u>18,158</u>
	<u>\$ 314,519</u>

**Government-Wide Statements**

	<u>Governmental Activities</u>
Property taxes billed in fiscal year 2013	<u>\$ 296,361</u>

**Note 8. Long-Term Debt**

A summary of long-term debt activity for the year ended June 30, 2012, is as follows. Additional detailed information is available on the following page.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<b><u>Government activities</u></b>					
<i>General Fund</i>					
Branch Banking & Trust (series 2012A bond)	\$ -	\$ 350,000	\$ -	\$ 350,000	\$ 19,302
Branch Banking & Trust (series 2012B bond)	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>	<u>8,272</u>
	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 27,574</u>
<b><u>Business-type activities</u></b>					
<i>Sewer Fund</i>					
Virginia Resources Authority (2007 loan)	\$ 2,300,000	\$ -	\$ (95,000)	\$ 2,205,000	\$ 100,000
Virginia Resources Authority (2009 loan)	8,000,000	-	(290,556)	7,709,444	300,963
SunTrust Bank (2010 loan)	<u>350,000</u>	<u>-</u>	<u>(50,000)</u>	<u>300,000</u>	<u>50,000</u>
	<u>\$ 10,650,000</u>	<u>\$ -</u>	<u>\$ (435,556)</u>	<u>\$ 10,214,444</u>	<u>\$ 450,963</u>

## NOTES TO FINANCIAL STATEMENTS

**Note 8. Long-Term Debt (Continued)****Government activities**

The Town signed a financing agreement with Branch Banking and Trust Company on June 1, 2012. Proceeds from this general obligation bond (series 2012A) were used to purchase the old Ace Hardware and existing library buildings. The library will be renovated to house the police department. Semi-annual payments on the bond commence on December 1, 2012, in the amount of \$14,200 each, including interest at 2.64 percent. The bond matures June 1, 2027. The Town pledges its full faith and credit on the bond.

The Town signed a financing agreement with Branch Banking and Trust Company on June 1, 2012. Proceeds from this general obligation bond (series 2012B) were used to purchase a lot at the corner of Rock and Main Streets. In the future, a building to house a Farmers' Market will be erected at that location. Semi-annual payments on the bond commence on December 1, 2012, in the amount of \$6,086 each, including interest at 2.64 percent. The bond matures June 1, 2027. The Town pledges its full faith and credit on the bond.

**Business-type activities**

The Town signed a financing agreement with the Virginia Resources Authority on November 14, 2007. On December 13, 2007, the Town issued a general obligation water and sewer bond (series of 2007) in the amount of \$2,555,000. As part of the financing agreement, the Town sold the local bond to the U. S. Bank (trustee for Virginia Resources Authority) for \$2,555,000. Proceeds from the bond were used to pay off the interim financing for the wastewater treatment facility. Annual principal payments on the bond commenced on October 1, 2008, and will continue through October 1, 2027. The initial principal payment begins at \$80,000 and will increase in intervals of up to \$15,000 until the final principal payment of \$195,000. In addition to the annual principal payment, the Town is making semi-annual interest payments on the outstanding balance at a rate between 3.7 percent and 5.036 percent. If necessary to make payments, the Town can levy an *ad valorem* tax without limitation as to rate or amount on all property in the Town subject to taxation. The Town also pledges on the bond, its full faith and credit and revenues of its water and sewer system. As of June 30, 2012, \$350,000 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2012, was \$104,500.

The Town signed a financing agreement with the Virginia Resources Authority on December 4, 2007. The financing agreement committed \$3,433,536 from the Virginia Revolving Loan Fund to the Town for use towards expansion of the wastewater treatment facility. On December 9, 2008, that commitment was increased to \$8,000,000. Semi-annual payments on the bond commence on October 1, 2011, in the amount of \$286,000 each, including interest at 3.55 percent. The bond matures October 1, 2030. If necessary to make payments, the Town can levy an *ad valorem* tax, sufficient to pay the principal cost of funds, on all property in the Town subject to taxation. The Town also pledges its full faith and credit and revenues of its water and sewer system. Total interest expense incurred on the loan for the year ended June 30, 2012, was \$278,865.

The Town signed a financing agreement with SunTrust Bank on February 22, 2010. Proceeds from this general obligation bond (series 2010) were used to fund the installation of an outfall line from the wastewater treatment facility. Annual principal payments on the bond commence on February 18, 2011, at the sum of \$50,000 each, and will continue through February 18, 2018. In addition to the annual principal payments, the Town is making semi-annual interest payments on the outstanding balance at a rate of 4.53 percent. If necessary to make payments, the Town can levy an *ad valorem* tax without limitation as to rate or amount on all property in the Town subject to taxation. The Town also pledges on the bond, its full faith and credit and revenues of its water and sewer system. Total interest expense incurred on the loan for the year ended June 30, 2012, was \$15,094.

## NOTES TO FINANCIAL STATEMENTS

**Note 8. Long-Term Debt (Continued)**

Annual requirements to amortize long-term debt and related interest at June 30, 2012, are as follows:

***Governmental-Type Activities***

Year Ending June 30	Branch Banking & Trust (Series 2012A bond)		Branch Banking & Trust (Series 2012B bond)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 19,302	\$ 9,099	\$ 8,272	\$ 3,900	\$ 27,574	\$ 12,999
2014	19,814	8,587	8,492	3,680	28,306	12,267
2015	20,339	8,062	8,717	3,455	29,056	11,517
2016	20,879	7,522	8,948	3,224	29,827	10,746
2017	21,433	6,968	9,186	2,986	30,619	9,954
2018 - 2022	116,003	26,001	49,716	11,143	165,719	37,144
2023 - 2027	132,230	9,773	56,669	4,189	188,899	13,962
	<u>\$ 350,000</u>	<u>\$ 76,012</u>	<u>\$ 150,000</u>	<u>\$ 32,577</u>	<u>\$ 500,000</u>	<u>\$ 108,589</u>

***Business-Type Activities***

Year Ending June 30	Virginia Resources Authority (2007 loan)		SunTrust (2010 loan)		Virginia Resources Authority (2009 loan)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 100,000	\$ 101,674	\$ 50,000	\$ 13,590	\$ 300,963	\$ 271,038	\$ 450,963	\$ 386,302
2014	100,000	97,776	50,000	11,325	311,742	260,259	461,742	369,360
2015	105,000	93,659	50,000	9,060	322,907	249,094	477,907	351,813
2016	110,000	89,251	50,000	6,795	334,472	237,529	494,472	333,575
2017	115,000	84,639	50,000	4,530	346,451	225,550	511,451	314,719
2018 - 2022	655,000	341,751	50,000	2,265	1,927,506	932,497	2,632,506	1,276,513
2023 - 2027	825,000	158,623	-	-	2,298,300	561,701	3,123,300	720,324
2028 - 2031	195,000	4,910	-	-	1,867,103	134,896	2,062,103	139,806
	<u>\$ 2,205,000</u>	<u>\$ 972,283</u>	<u>\$ 300,000</u>	<u>\$ 47,565</u>	<u>\$ 7,709,444</u>	<u>\$ 2,872,564</u>	<u>\$ 10,214,444</u>	<u>\$ 3,892,412</u>

**Note 9. Defined Benefit Pension Plan****Plan Description**

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension administered by the Virginia Retirement System. All full-time, salaried permanent 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.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010, and who have service credits before July 1, 2010, are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least thirty years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.

## NOTES TO FINANCIAL STATEMENTS

**Note 9. Defined Benefit Pension Plan (Continued)**

- Members hired or rehired on or after July 1, 2010, and who have no service credits before July 1, 2010, are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least twenty-five years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 percent. The retirement multiplier for sheriffs and regional jail superintendents is 1.85 percent. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70 percent or 1.85 percent as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00 percent; under Plan 2, the COLA cannot exceed 6.00 percent. During years of no inflation or deflation, the COLA is 0.00 percent. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report is available at the VRS website ([www.varetire.org](http://www.varetire.org)) or may be obtained by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, VA 23218-2500.

**Special Elected Benefit**

The Town has elected to fund the Law Enforcement Officers (LEOS) retirement benefit. LEOS provides a package of special retirement benefits for law enforcement officers and their survivors. Employees eligible for LEOS are covered by VRS but have enhanced benefit formulas because of the nature of their jobs. The Town's contribution rate was increased to cover enrollment in this program.

## NOTES TO FINANCIAL STATEMENTS

**Note 9. Defined Benefit Pension Plan (Continued)**Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their compensation toward their retirement. The employer has assumed this 5 percent member contribution for employees hired prior to July 1, 2010. For employees hired after that date, the member contribution is a pre-tax salary reduction. In addition, the Town of Broadway, Virginia 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 of Broadway's contribution rate for the fiscal year ended June 30, 2012, was 9.76 percent (excluding 5 percent member contribution) of the annual covered payroll.

Annual Pension Cost

For 2012, the Town's annual pension cost of \$117,142 for VRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.00 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs and (c) 2.50 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the Plan's assets is equal to the modified market value of assets. This method use 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 level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, for the Unfunded Actuarial Accrued Liability (UAAL), was 20 years.

**Three-Year Trend Information for the Town of Broadway**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	\$104,511	100%	\$ -
6/30/11	111,924	100%	-
6/30/12	117,142	100%	-

Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 65.39 percent funded. The actuarial accrued liability for benefits was \$2,668,545, and the actuarial value of assets was \$1,745,039, resulting in an unfunded actuarial accrued liability (UAAL) of \$923,506. The covered payroll (annual payroll of active employees covered by the plan) was \$779,210, and the ratio of the UAAL to the covered payroll was 118.52 percent.

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.

## NOTES TO FINANCIAL STATEMENTS

**Note 10. Operating Lease Commitments**

The Town receives rental income from three operating leases.

The Town leases land behind the wastewater treatment facility to a farmer on a year-to-year operating lease. This lease revenue is presented in the General Fund. The rents received from this lease during the fiscal year ended June 30, 2012, were \$5,000.

The Town leases its water tank to two communication companies under noncancelable operating leases for five years. The annual rents received from each lease are \$16,560 and \$16,664, respectively. Each lease has additional renewal terms. The companies use the tank to mount their antennas. The following is a schedule by years of future minimum rentals under the current terms of the leases:

<u>Year Ending June 30</u>	
2013	\$ 27,704
2014	16,664
2015	16,664
2016	<u>16,664</u>
	<u>\$ 77,696</u>

The total rental income from these leases that is included in the Water Fund's statement of revenues and expenses for the year ended June 30, 2012, was \$33,959.

The Town leases a spring under a noncancelable operating lease. The lease calls for the Town to pay annual rent of \$5,000 until the time the Town begins withdrawing water. Once that occurs, the Town will pay annually the greater of \$5,000 or 5 cents for each 1,000 gallons withdrawn. The lease originated March, 2003, and runs for a period of 99 years. For the year ended June 30, 2012, lease expense in the Water Fund's statement of revenues and expenses was \$5,000.

**Note 11. 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 natural disasters.

The Town has insurance coverage with the VML Insurance Programs. The Town has joined with nearly 500 local political subdivisions in Virginia to form this public entity risk pool that operates as a common risk management and insurance program for members. Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Town's settled claims have not exceeded insurance coverage in any of the past three fiscal years.

**Note 12. Revolving Lines of Credit**

The Town has two revolving lines of credit with BB&T, one reported in the General Fund and the other in the Sewer Fund. Each line of credit had \$50,000 unused at June 30, 2012. Bank advances on the credit lines are payable on demand and carry interest at the bank's prime rate. The credit lines are secured by the full faith and credit of the Town.

## NOTES TO FINANCIAL STATEMENTS

**Note 13. Interfund Transfers**

Interfund transfers during the year ended June 30, 2012, are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,405,690	\$ 223,344
Water Fund	519,565	1,360,934
Sewer Fund	5,032	346,009
RBEG Fund	<u>48,000</u>	<u>48,000</u>
	<u>\$ 1,978,287</u>	<u>\$ 1,978,287</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 14. Interfund Balances**

Interfund balances at June 30, 2012, consisted of the following:

<u>Fund</u>	<u>Due From</u>			
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Due to:				
General Fund	\$ -	\$ -	\$ -	\$ -
Water Fund	238,494	-	1,130,280	1,368,774
Sewer Fund	-	-	-	-
Total	<u>\$ 238,494</u>	<u>\$ -</u>	<u>\$ 1,130,280</u>	<u>\$ 1,368,774</u>

**Note 15. Subsequent Events**

On October 5, 2012, the Town refinanced \$7,560,286 of its bond with the Virginia Resources Authority. Semi-annual payments on the bond commence on April 1, 2013, in the amount of \$265,450 each, including interest at 2.65 percent. The bond matures October 1, 2030.

**Note 16. Major Customers**

The Town has three major wastewater customers. For the year ended June 30, 2012, the sewer revenues from these customers are as follows:

Pilgrims Pride Corporation	\$ 1,345,987
Cargill Corporation	269,725
Town of New Market	<u>281,854</u>
	<u>\$ 1,897,566</u>

Accounts receivable from these customers at June 30, 2012, are as follows:

Pilgrims Pride Corporation	\$ 34,000
Town of New Market	<u>18,135</u>
	<u>\$ 52,135</u>



**Required Supplementary Information-  
Other than Management's Discussion and Analysis**

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE-BUDGET AND ACTUAL**  
**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>				
General property taxes	\$ 229,278	\$ 229,278	\$ 264,778	\$ 35,500
Other local taxes	533,500	533,500	558,957	25,457
Permits, privilege fees and regulatory license	4,000	4,000	2,209	(1,791)
Fines and forfeitures	14,000	14,000	4,078	(9,922)
Revenue from the use of money and property	17,500	17,500	13,373	(4,127)
Charges for services	210,000	210,000	233,967	23,967
Miscellaneous	2,000	2,000	11,669	9,669
Intergovernmental revenues:				
Commonwealth	105,622	105,622	103,247	(2,375)
Federal	7,000	36,000	96,566	60,566
Total revenues	<u>\$ 1,122,900</u>	<u>\$ 1,151,900</u>	<u>\$ 1,288,844</u>	<u>\$ 136,944</u>
<b>EXPENDITURES</b>				
General government administration	\$ 383,500	\$ 912,500	\$ 811,690	\$ 100,810
Public safety	330,000	330,000	346,595	(16,595)
Public works	227,500	227,500	233,744	(6,244)
Cultural and recreation	104,000	124,000	173,812	(49,812)
Community development	45,000	45,000	26,457	18,543
Total expenditures	<u>\$ 1,090,000</u>	<u>\$ 1,639,000</u>	<u>\$ 1,592,298</u>	<u>\$ 46,702</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 32,900</u>	<u>\$ (487,100)</u>	<u>\$ (303,454)</u>	<u>\$ 183,646</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	\$ -	\$ 500,000	\$ 500,000	\$ -
Transfers in	-	-	1,405,690	1,405,690
Transfers out	-	-	(223,344)	(223,344)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 1,682,346</u>	<u>\$ 1,182,346</u>
Net change in fund balance	\$ 32,900	\$ 12,900	\$ 1,378,892	\$ 1,365,992
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>(1,378,892)</u>	<u>(1,378,892)</u>	<u>(1,378,892)</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ (1,345,992)</u>	<u>\$ (1,365,992)</u>	<u>\$ -</u>	<u>\$ 1,365,992</u>

## TOWN OF BROADWAY, VIRGINIA

SCHEDULE OF FUNDING PROGRESS -  
DEFINED BENEFIT PENSION PLAN

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) --Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/09	\$ 1,710,878	\$ 2,058,943	\$ 348,065	83.10%	\$ 703,962	49.44%
6/30/10	1,769,887	2,499,611	729,724	70.81%	740,077	98.60%
6/30/11	1,745,039	2,668,545	923,506	65.39%	779,210	118.52%

## **Other Supplementary Information**

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GENERAL PROPERTY TAXES</b>				
Real estate	\$ 178,000	\$ 178,000	\$ 177,114	\$ (886)
Personal property	46,778	46,778	81,472	34,694
Public service corporations	2,500	2,500	2,959	459
Penalties and interest	2,000	2,000	3,233	1,233
	<u>\$ 229,278</u>	<u>\$ 229,278</u>	<u>\$ 264,778</u>	<u>\$ 35,500</u>
<b>OTHER LOCAL TAXES</b>				
Local sales and use	\$ 125,000	\$ 125,000	\$ 137,912	\$ 12,912
Utility taxes	115,500	115,500	114,293	(1,207)
Business licenses	70,000	70,000	64,586	(5,414)
Motor vehicle licenses	65,000	65,000	64,692	(308)
Meals tax	110,000	110,000	120,442	10,442
Bank stock	48,000	48,000	54,572	6,572
DMV fees	-	-	2,460	2,460
	<u>\$ 533,500</u>	<u>\$ 533,500</u>	<u>\$ 558,957</u>	<u>\$ 25,457</u>
<b>PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES</b>				
Zoning fees	\$ 4,000	\$ 4,000	\$ 2,209	\$ (1,791)
	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 2,209</u>	<u>\$ (1,791)</u>
<b>FINES AND FORFEITURES</b>				
	\$ 14,000	\$ 14,000	\$ 4,078	\$ (9,922)
	<u>\$ 14,000</u>	<u>\$ 14,000</u>	<u>\$ 4,078</u>	<u>\$ (9,922)</u>
<b>REVENUE FROM THE USE OF MONEY AND PROPERTY</b>				
Interest on bank deposits	\$ 3,500	\$ 3,500	\$ 3,230	\$ (270)
Net increase in the fair value of investments	-	-	815	815
Rent-snow removal equipment	5,000	5,000	4,328	(672)
Sale of equipment	1,000	1,000	-	(1,000)
Land lease	8,000	8,000	5,000	(3,000)
	<u>\$ 17,500</u>	<u>\$ 17,500</u>	<u>\$ 13,373</u>	<u>\$ (4,127)</u>
<b>CHARGES FOR SERVICES</b>				
Trash collection fees	\$ 170,000	\$ 170,000	\$ 173,721	\$ 3,721
Parks revenue	40,000	40,000	60,246	20,246
	<u>\$ 210,000</u>	<u>\$ 210,000</u>	<u>\$ 233,967</u>	<u>\$ 23,967</u>
<b>MISCELLANEOUS</b>				
Donation	\$ -	\$ -	\$ 10,000	\$ 10,000
Other	2,000	2,000	1,669	(331)
	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 11,669</u>	<u>\$ 9,669</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>INTERGOVERNMENTAL REVENUES</b>				
<b>Commonwealth</b>				
ABC profits and wine taxes	\$ 2,700	\$ 2,700	\$ -	\$ (2,700)
Rolling stock taxes	1,700	1,700	2,764	1,064
Fire program funds	8,000	8,000	8,473	473
Law enforcement grants, 599 funds	60,000	60,000	58,788	(1,212)
Personal property tax reimbursement	<u>33,222</u>	<u>33,222</u>	<u>33,222</u>	<u>-</u>
	<u>\$ 105,622</u>	<u>\$ 105,622</u>	<u>\$ 103,247</u>	<u>\$ (2,375)</u>
<b>Federal</b>				
Department of Forestry corridor enhancement tree grant	\$ -	\$ -	\$ 314	\$ 314
Rural Development Business Enterprise grant	-	-	63,620	63,620
American Reinvestment and Recovery Act Funds, passed through Central Shenandoah Planning District Commission (energy conversation grant)	-	29,000	22,000	(7,000)
DMV Highway Safety Program grants	2,000	2,000	5,632	3,632
Art grant	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
	<u>\$ 7,000</u>	<u>\$ 36,000</u>	<u>\$ 96,566</u>	<u>\$ 60,566</u>
<b>Total revenues</b>	<u>\$ 1,122,900</u>	<u>\$ 1,151,900</u>	<u>\$ 1,288,844</u>	<u>\$ 136,944</u>

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GENERAL GOVERNMENT ADMINISTRATION</b>				
<b>General Government</b>				
Town council salaries	\$ 24,000	\$ 24,000	\$ 25,080	\$ (1,080)
Salaries and wages	181,000	181,000	182,333	(1,333)
Employee benefits	51,000	51,000	45,727	5,273
Payroll taxes	14,000	14,000	14,144	(144)
Buildings and grounds	10,000	10,000	7,592	2,408
DMV fees	-	-	1,685	(1,685)
Donations	3,500	3,500	4,800	(1,300)
Dues and memberships	4,000	4,000	3,452	548
Insurance and surety bonds	9,000	9,000	9,010	(10)
Interest expense	-	-	288	(288)
Miscellaneous	10,000	10,000	12,557	(2,557)
Office supplies and postage	9,000	9,000	8,522	478
Professional services	29,000	29,000	43,792	(14,792)
Publications	5,500	5,500	3,349	2,151
Service fees	5,500	5,500	9,290	(3,790)
Travel/educational	12,000	12,000	4,977	7,023
Telephone	3,000	3,000	2,978	22
Utilities and fuel	3,000	3,000	3,482	(482)
	<u>\$ 373,500</u>	<u>\$ 373,500</u>	<u>\$ 383,058</u>	<u>\$ (9,558)</u>
<b>Capital Outlay</b>				
General government	\$ 10,000	\$ 539,000	\$ 428,632	\$ 110,368
	<u>\$ 10,000</u>	<u>\$ 539,000</u>	<u>\$ 428,632</u>	<u>\$ 110,368</u>
<b>Total general government administration</b>	<u>\$ 383,500</u>	<u>\$ 912,500</u>	<u>\$ 811,690</u>	<u>\$ 100,810</u>
<b>PUBLIC SAFETY</b>				
<b>Police Department</b>				
Salaries and wages	\$ 180,000	\$ 180,000	\$ 188,779	\$ (8,779)
Employee benefits	56,000	56,000	54,140	1,860
Payroll taxes	14,000	14,000	14,320	(320)
Insurance	7,500	7,500	4,829	2,671
Telephone	5,500	5,500	3,282	2,218
Uniforms and supplies	9,000	9,000	17,343	(8,343)
Vehicle maintenance	10,000	10,000	24,035	(14,035)
	<u>\$ 282,000</u>	<u>\$ 282,000</u>	<u>\$ 306,728</u>	<u>\$ (24,728)</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Other</b>				
Fire program funds	\$ 8,000	\$ 8,000	\$ 9,867	\$ (1,867)
Fire department donation	15,000	15,000	15,000	-
Rescue squad donation	15,000	15,000	15,000	-
	<u>\$ 38,000</u>	<u>\$ 38,000</u>	<u>\$ 39,867</u>	<u>\$ (1,867)</u>
<b>Capital Outlay</b>				
Public safety	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>
	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>
<b>Total public safety</b>	<u>\$ 330,000</u>	<u>\$ 330,000</u>	<u>\$ 346,595</u>	<u>\$ (16,595)</u>
<b>PUBLIC WORKS</b>				
<b>Maintenance and Streets</b>				
Beautification	\$ 8,000	\$ 8,000	\$ 4,034	\$ 3,966
Electricity-street lights	36,000	36,000	41,764	(5,764)
Snow removal	1,500	1,500	1,993	(493)
Street maintenance	4,000	4,000	641	3,359
	<u>\$ 49,500</u>	<u>\$ 49,500</u>	<u>\$ 48,432</u>	<u>\$ 1,068</u>
<b>Sanitation</b>				
Trash removal - recycling	<u>\$ 178,000</u>	<u>\$ 178,000</u>	<u>\$ 185,312</u>	<u>\$ (7,312)</u>
	<u>178,000</u>	<u>\$ 178,000</u>	<u>\$ 185,312</u>	<u>\$ (7,312)</u>
<b>Total public works</b>	<u>\$ 227,500</u>	<u>\$ 227,500</u>	<u>\$ 233,744</u>	<u>\$ (6,244)</u>

(Continued)



## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>CULTURAL AND RECREATION</b>				
<b>Parks and Recreation</b>				
Salaries and wages	\$ 33,000	\$ 33,000	\$ 39,875	\$ (6,875)
Payroll taxes	2,500	2,500	3,050	(550)
Park operating expenses	21,000	21,000	29,465	(8,465)
Utilities and fuel	9,000	9,000	10,931	(1,931)
Miscellaneous	5,000	5,000	4,996	4
Contractual services	3,500	3,500	7,704	(4,204)
	<u>\$ 74,000</u>	<u>\$ 74,000</u>	<u>\$ 96,021</u>	<u>\$ (22,021)</u>
<b>Capital Outlay</b>				
	<u>\$ 30,000</u>	<u>\$ 50,000</u>	<u>\$ 77,791</u>	<u>\$ (27,791)</u>
	<u>\$ 30,000</u>	<u>\$ 50,000</u>	<u>\$ 77,791</u>	<u>\$ (27,791)</u>
<b>Total cultural and recreation</b>	<u>\$ 104,000</u>	<u>\$ 124,000</u>	<u>\$ 173,812</u>	<u>\$ (49,812)</u>
<b>COMMUNITY DEVELOPMENT</b>				
Planning and development	\$ 15,000	\$ 15,000	\$ 15,090	\$ (90)
Economic development	<u>30,000</u>	<u>30,000</u>	<u>11,367</u>	<u>18,633</u>
<b>Total community development</b>	<u>\$ 45,000</u>	<u>\$ 45,000</u>	<u>\$ 26,457</u>	<u>\$ 18,543</u>
<b>Total expenditures</b>	<u>\$ 1,090,000</u>	<u>\$ 1,639,000</u>	<u>\$ 1,592,298</u>	<u>\$ 46,702</u>

## TOWN OF BROADWAY, VIRGINIA

**WATER FUND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2012**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 355,000	\$ 366,824	\$ 11,824
Connection fees	60,000	48,000	(12,000)
Miscellaneous	4,000	9,115	5,115
Total operating revenues	<u>\$ 419,000</u>	<u>\$ 423,939</u>	<u>\$ 4,939</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 206,000	\$ 210,720	\$ (4,720)
Employee benefits	26,000	36,094	(10,094)
Payroll taxes	16,000	15,872	128
Water purchases - Co-Op	65,000	49,498	15,502
Chemicals	30,000	37,038	(7,038)
Insurance	12,000	10,494	1,506
Miscellaneous	4,000	1,857	2,143
Postage	1,000	1,322	(322)
Professional fees	10,000	2,572	7,428
Repairs and maintenance	40,000	51,117	(11,117)
Supplies	2,000	1,417	583
Utilities and fuel	28,000	33,272	(5,272)
Telephone	2,000	2,202	(202)
Vehicle maintenance	3,500	8,333	(4,833)
Water feasibility study	-	11,164	(11,164)
Depreciation	-	88,952	(88,952)
Total operating expenses	<u>\$ 445,500</u>	<u>\$ 561,924</u>	<u>\$ (116,424)</u>
Operating income (loss)	<u>\$ (26,500)</u>	<u>\$ (137,985)</u>	<u>\$ (111,485)</u>
<b>NONOPERATING REVENUES (EXPENSE)</b>			
Interest earned	\$ 3,000	\$ 3,244	\$ 244
Lease of water tank space	28,800	33,959	5,159
Spring lease fees	(5,000)	(5,000)	-
Total nonoperating revenues (expense)	<u>\$ 26,800</u>	<u>\$ 32,203</u>	<u>\$ 5,403</u>
Income (loss) before transfers	<u>\$ 300</u>	<u>\$ (105,782)</u>	<u>\$ (106,082)</u>
<b>TRANSFERS</b>			
Transfers in	\$ -	\$ 519,565	\$ 519,565
Transfers out	-	(1,360,934)	(1,360,934)
	<u>\$ -</u>	<u>\$ (841,369)</u>	<u>\$ (841,369)</u>
Change in net assets	<u>\$ 300</u>	<u>\$ (947,151)</u>	<u>\$ (947,451)</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>4,759,874</u>	<u>4,759,874</u>	<u>-</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 4,760,174</u>	<u>\$ 3,812,723</u>	<u>\$ (947,451)</u>

## TOWN OF BROADWAY, VIRGINIA

**SEWER FUND**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS- BUDGET AND ACTUAL**  
**Year Ended June 30, 2012**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OPERATING REVENUES</b>			
Wastewater contracts	\$ 1,900,000	\$ 2,018,442	\$ 118,442
Charges for services	330,000	319,273	(10,727)
Connection fees	64,000	49,600	(14,400)
Sludge revenue	400,000	349,496	(50,504)
Miscellaneous	5,000	31,125	26,125
Total operating revenues	<u>\$ 2,699,000</u>	<u>\$ 2,767,936</u>	<u>\$ 68,936</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 294,000	\$ 328,423	\$ (34,423)
Employee benefits	99,500	101,171	(1,671)
Payroll taxes	22,000	24,875	(2,875)
Chemicals	250,000	304,559	(54,559)
Insurance	13,000	10,715	2,285
Lab testing	80,000	67,422	12,578
Miscellaneous	4,000	7,037	(3,037)
Postage	1,000	1,317	(317)
Professional fees	12,500	9,461	3,039
Repairs and maintenance	130,000	130,187	(187)
Supplies	4,000	3,005	995
Sludge removal	440,000	302,865	137,135
Utilities and fuel	425,000	425,012	(12)
Telephone	6,000	5,981	19
Amortization	-	2,560	(2,560)
Depreciation	-	448,968	(448,968)
Total operating expenses	<u>\$ 1,781,000</u>	<u>\$ 2,173,558</u>	<u>\$ (392,558)</u>
Operating income (loss)	<u>\$ 918,000</u>	<u>\$ 594,378</u>	<u>\$ (323,622)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Interest earned	\$ 22,500	\$ 7,558	\$ (14,942)
Unrealized gain on investments	-	2,736	2,736
Interest expense	(406,000)	(398,752)	7,248
Total nonoperating revenue (expense)	<u>\$ (383,500)</u>	<u>\$ (388,458)</u>	<u>\$ (4,958)</u>
Income (loss) before contributions and transfers	<u>\$ 534,500</u>	<u>\$ 205,920</u>	<u>\$ (328,580)</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

**SEWER FUND**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS- BUDGET AND ACTUAL**  
**Year Ended June 30, 2012**

	<u>Budget - Original &amp; Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>CAPITAL CONTRIBUTION AND TRANSFERS</b>			
Capital contribution:			
DEQ Water Quality Improvement grant	\$ -	\$ 46,159	\$ 46,159
Transfers in	-	5,032	5,032
Transfers out	-	(346,009)	(346,009)
Total contribution and transfers	<u>\$ -</u>	<u>\$ (294,818)</u>	<u>\$ (294,818)</u>
 Change in net assets	 \$ 534,500	 \$ (88,898)	 \$ (623,398)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>7,225,804</u>	<u>7,225,804</u>	<u>-</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 7,760,304</u>	<u>\$ 7,136,906</u>	<u>\$ (623,398)</u>

## TOWN OF BROADWAY, VIRGINIA

SCHEDULE OF CAPITAL ADDITIONS  
Year Ended June 30, 2012**GENERAL FUND**

Farmers' Market:	
Parking lot and retaining wall	\$ 24,288
General government:	
Building, 175 N. Main Street	341,796
Landscaping, J. Frank Hillyard Gardens	7,482
Land:	
Farmers' Market	42,161
175 N. Main Street	12,906
Park:	
Community Center renovation	69,214
ADA chair	4,349
Two diving boards	<u>4,228</u>
<b>Total general fund</b>	<b>\$ <u>506,424</u></b>

**WATER FUND**

Digital control module	\$ 10,145
SCADA upgrade	9,429
6" EZ valve	<u>5,600</u>
<b>Total water fund</b>	<b>\$ <u>25,174</u></b>

**SEWER FUND**

Professional services at WWTF	\$ 36,865
Correlator	18,590
Pump	18,408
Holly Hill sewer line	12,180
Leak detector	4,000
Turbo rigid	<u>3,205</u>
<b>Total sewer fund</b>	<b>\$ <u>93,248</u></b>



**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 Town Council  
Town of Broadway  
Broadway, VA 22815

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Broadway, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town of Broadway's basic financial statements and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

**Internal Control Over Financial Reporting**

Management of the Town of Broadway is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Broadway's internal control over financial reporting as a basis for designing our auditing procedures 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 of Broadway's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Broadway's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control over financial reporting to be material weaknesses.

**Young, Nicholas, Branner & Phillips, LLP**  
Certified Public Accountants

1041 South High Street • P.O. Box 2187  
Harrisonburg, VA 22801  
(540) 433-2581 • FAX (540) 433-0147

1. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions. We recognize that because of the small size of the Town, it may not be economically feasible to have adequate segregation of duties but we are required to report this condition under our professional responsibilities.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. The employees appear to perform their duties in a structured and conscientious manner. The problem is that with a small staff, it is hard to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

In the future, the Town plans to continue to segregate employee duties as much as possible. The Town Council and Officials also plan to continue to be actively involved in overseeing the Town's financial operations.

2. The Town does not have controls over the preparation of the financial statements that would prevent or detect a misstatement in the financial statements. Many localities rely on their auditors to prepare their financial statements due to the complexity involved. While professional standards indicate that it is acceptable for the auditor to prepare the financial statements, the auditor cannot be considered part of the Town's internal control. Because the Town does not have staff with the appropriate skills and knowledge to prepare the financial statements in accordance with generally accepted accounting principles, communication is required.
3. The Town of Broadway maintains its general ledger and prepares monthly financial statements on a modified cash basis of accounting. This is the same method of accounting that the Town uses in preparing its annual budget. During our audit, we identified material audit adjustments that were necessary to present the annual financial statements in accordance with generally accepted accounting standards. Many localities rely upon their auditors to propose these adjustments due to the complexity involved. An ideal system of internal control over financial reporting is designed to provide reasonable assurance that the system will prevent, detect, and correct potential misstatements in the financial statements and disclosures. The auditor cannot be part of a Town's internal control structure. Therefore, even though the audit adjustments are reviewed, approved, and accepted by the Town's management, this process cannot be considered part of the Town's internal control and the control deficiency must be communicated to you.
4. The Town does not have controls over the inventory other than the physical count at the end of the accounting year. If the Town had a system of controls in place, it could prevent, detect, and correct potential misstatements in a more timely fashion. The Town is currently in the process of implementing these controls.

### Compliance

As part of obtaining reasonable assurance about whether the Town of Broadway's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, Town Council, and awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Young, Nicholas, Branner & Phillips, LLP*

Harrisonburg, VA  
October 16, 2012