

TOWN OF STRASBURG, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

TOWN OF STRASBURG, VIRGINIA

**Annual Financial Report
For the Fiscal Year Ended June 30, 2012**

TOWN OF STRASBURG, VIRGINIA

Strasburg, Virginia

OFFICIALS

Timothy Taylor, Mayor
Irene Wilson, Treasurer
Judson Rex, Town Manager
Dottie Mullins, Director of Finance

TOWN COUNCIL

Robert B. Baker
Sarah K. Mauck
Richard A. Redmon
Jocelyn Vena

Donald M. Le Vine
Rich Orndorff, Jr.
John Hall, Jr.
Scott E. Terndrup

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF STRASBURG, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, 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 Strasburg, Virginia'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; 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, and each major fund, of the Town of Strasburg, 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 12, 2012 on our consideration of the Town of Strasburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of pension funding progress 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedule of funding progress 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 management's discussion and analysis and schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been

subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Strasburg, Virginia's financial statements as a whole. The statistical information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards 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 procedure 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. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Robinson, Farmer, Cox Associates

Staunton, Virginia
October 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers an overview and analysis of the financial activities of the Town of Strasburg for the fiscal year ended June 30, 2012. The information presented here should be considered in conjunction with additional information provided in the Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

The assets of the Town exceeded its liabilities at June 30, 2012 by \$16,994,816, which equals the total net assets of the Town. Of this amount, \$6,049,903 is unrestricted and may be used to meet the Town's future obligations. Of the \$6,049,903 unrestricted assets approximately \$1,905,170 is related to governmental activities and is undesignated and available for future General Fund expenditures. The \$4,144,733 remaining balance of unrestricted assets is related to business-type activities, which includes the Town's enterprise fund.

The Town's total non-current long-term debt increased by \$322,133 from \$13,700,182 as of June 30, 2011 to \$14,022,319 as of June 30, 2012. Of that increase, \$521,034 represents the construction in progress as of June 30, 2012 for a water treatment plant, while \$198,899 in Governmental Activities was retired during fiscal year 2012.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds.

The Town's governmental funds reported revenues and other financing sources in excess of expenditures and other financing uses in the amount of \$253,149 for the fiscal year, with an ending unassigned fund balance of \$1.9 million.

The Town's proprietary funds reported net income of \$1.9 million mainly due to an approved rate increase which included \$558,000 to be placed in reserves to help offset expenses in future years.

General Financial Highlights

The Town anticipates issuing substantial long term debt in future years for the construction of the wastewater treatment plant upgrade and other capital improvement projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management Discussion and Analysis serves as an introduction to the Town's basic financial statements which are the government-wide financial statements, fund financial statements, and notes to the financial statements.

The Town's financial statements present two kinds of statements, each with a different view of the Town's finances. The government-wide financial statements provide both long and short-term information about the Town's overall financial status. The fund financial statements focus on individual parts of the Town's government, reporting the Town's operations in more detail than the government-wide statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data. The statements and notes are followed by required supplementary information that contains more detailed data.

Government-wide Financial Statements

The government-wide financial statements report information about the Town as a whole using accounting methods similar to those used by private-sector businesses. In addition, they report the Town's net assets and how they have changed during the fiscal year.

The Statement of Net Assets and the Statement of Activities report the Town's net assets and changes in assets. One can think of the Town's net assets – the difference between assets and liabilities – as one way to measure the Town's financial position.

Governmental activities – Most of the Town's basic services are reported here; general government, police, public works, and recreation Property taxes, and other taxes, finance most of these activities.

Business-type activities – The financial activity of the water, sewer and trash are reported here. The Town charges a fee to customers to help cover all or most of the cost of services provided by these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has the following two types of funds:

Governmental Funds

Governmental funds are used to report most of the Town's basic services. The funds focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that is available for spending. The governmental funds financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating account of the Town and consequently, the largest of the governmental funds. All other governmental funds, which include special revenue funds, debt service funds, and capital project funds, are collectively referred to as non-major governmental funds.

Proprietary Funds – Proprietary funds, which consist of enterprise funds and internal service funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long and short-term financial information. The Town maintains three proprietary funds. The Town uses enterprise funds to account for its water, sewer and trash.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town's total assets, liabilities and net assets on a government-wide basis are summarized below:

**Summary of Statement of Net Assets
as of June 30, 2012
(in millions)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,869	\$ 2,625	\$ 5,203	\$ 4,582	\$ 8,072	\$ 7,207
Capital assets	4,118	3,743	22,236	20,347	26,354	24,090
Total Assets	<u>\$ 6,987</u>	<u>\$ 6,368</u>	<u>\$ 27,439</u>	<u>\$ 24,929</u>	<u>\$ 34,426</u>	<u>\$ 31,297</u>
Long-term debt outstanding	\$ 985	\$ 1,183	\$ 13,038	\$ 12,517	\$ 14,023	\$ 13,700
Other liabilities	1,021	1,017	2,387	2,301	3,408	3,318
Total Liabilities	<u>\$ 2,006</u>	<u>\$ 2,200</u>	<u>\$ 15,425</u>	<u>\$ 14,818</u>	<u>\$ 17,431</u>	<u>\$ 17,018</u>
Net Assets						
Invested in capital assets, net of related debt	\$ 3,009	\$ 2,422	\$ 7,869	\$ 7,846	\$ 10,878	\$ 10,268
Restricted for debt service			-	1,258	-	1,258
Restricted for other purposes	67	66	-	499	67	
Unrestricted	1,905	1,680	4,145	508	6,050	2,188
Total net assets	<u>\$ 4,981</u>	<u>\$ 4,168</u>	<u>\$ 12,014</u>	<u>\$ 10,111</u>	<u>\$ 16,995</u>	<u>\$ 14,279</u>

The Town's combined net assets increased from \$14 million at June 30, 2011 to \$16.99 million at June 30, 2012 primarily due to an increase in capital assets in business type activities. The majority (60 percent) of the Town's net assets of governmental activities is invested in capital assets (streets, drainage, constructions in progress, buildings, equipment, etc.) The capital assets are not available for future expenditures since they will not be sold. The Town has a strong financial position with 40 percent of net assets in governmental activities unrestricted and available for providing services to the citizens of the Town of Strasburg.

The net assets of the Town's business-type activities are \$12 million, an increase of about \$1.9 million from June 30, 2011. The increase is a result of an increase in water and sewer fees, of which \$558,000 will be placed in reserves to offset future expenditures in the sewer fund. The majority (58 percent) of the net assets in the business-type activities is invested in capital assets. The Town uses these assets to provide services to the citizens.

Statement of Activities The Town's total revenues and expenses for governmental and business-type activities are reflected in the following chart:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
PRIMARY GOVERNMENT:						
Governmental activities:						
General government						
administration	\$ (465,118)	\$ (616,800)	\$ -	\$ -	\$ (465,118)	\$ (616,800)
Public safety	(1,623,378)	(1,520,197)	-	-	(1,623,378)	(1,520,197)
Public works	(688,663)	(647,412)	-	-	(688,663)	(647,412)
Health and welfare	(9,272)	(7,305)	-	-	(9,272)	(7,305)
Community development	(40,116)	(27,500)	-	-	(40,116)	(27,500)
Parks, recreation and cultural	(108,877)	(43,115)	-	-	(108,877)	(43,115)
Interest on long-term debt	(45,836)	(52,218)	-	-	(45,836)	(52,218)
Total government activities	<u>\$ (2,981,260)</u>	<u>\$ (2,914,547)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,981,260)</u>	<u>\$ (2,914,547)</u>
Business-type activities:						
Water Fund	\$ -	\$ -	\$ 1,518,895	\$ 112,390	\$ 1,518,895	\$ 112,390
Sewer Fund	-	-	844,574	684,464	844,574	684,464
Trash Fund	-	-	(9,507)	(5,873)	(9,507)	(5,873)
Recreation Fund	-	-	-	(81,816)	-	(81,816)
Total business-type activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,353,962</u>	<u>\$ 709,165</u>	<u>\$ 2,353,962</u>	<u>\$ 709,165</u>
Total primary government	<u>\$ (2,981,260)</u>	<u>\$ (2,914,547)</u>	<u>\$ 2,353,962</u>	<u>\$ 709,165</u>	<u>\$ (627,298)</u>	<u>\$ (2,205,382)</u>
General revenues:						
General property taxes	\$ 1,401,461	\$ 1,494,641	\$ -	\$ -	\$ 1,401,461	\$ 1,494,641
Local sales tax	267,608	257,470	-	-	267,608	257,470
Franchise taxes	73,739	112,760	-	-	73,739	112,760
Business licenses	107,798	108,129	-	-	107,798	108,129
Meals tax	527,138	532,016	-	-	527,138	532,016
Utility tax	57,970	50,010	-	-	57,970	50,010
Motor vehicle licenses	139,039	119,202	-	-	139,039	119,202
Other taxes	350,241	317,383	-	-	350,241	317,383
Grants and contributions not restricted to specific programs	206,826	218,961	-	-	206,826	218,961
Revenue from the use of money and property	72,216	71,389	41,627	43,333	113,843	114,722
Loss on disposal of assets	-	(1,696)	-	(12,017)	-	(13,713)
Insurance proceeds	-	-	-	-	-	-
Miscellaneous	57,580	85,346	39,486	8,860	97,066	94,206
Transfers	533,048	(86,084)	(533,048)	86,084	-	-
Total general revenues	<u>\$ 3,794,664</u>	<u>\$ 3,279,527</u>	<u>\$ (451,935)</u>	<u>\$ 126,260</u>	<u>\$ 3,342,729</u>	<u>\$ 3,405,787</u>
Change in net assets	\$ 813,404	\$ 364,980	\$ 1,902,027	\$ 835,425	\$ 2,715,431	\$ 1,200,405
Net assets - beginning	4,167,894	3,802,914	10,111,491	9,276,068	14,279,385	13,078,982
Net assets - ending	<u>\$ 4,981,298</u>	<u>\$ 4,167,894</u>	<u>\$ 12,013,518</u>	<u>\$ 10,111,493</u>	<u>\$ 16,994,816</u>	<u>\$ 14,279,387</u>

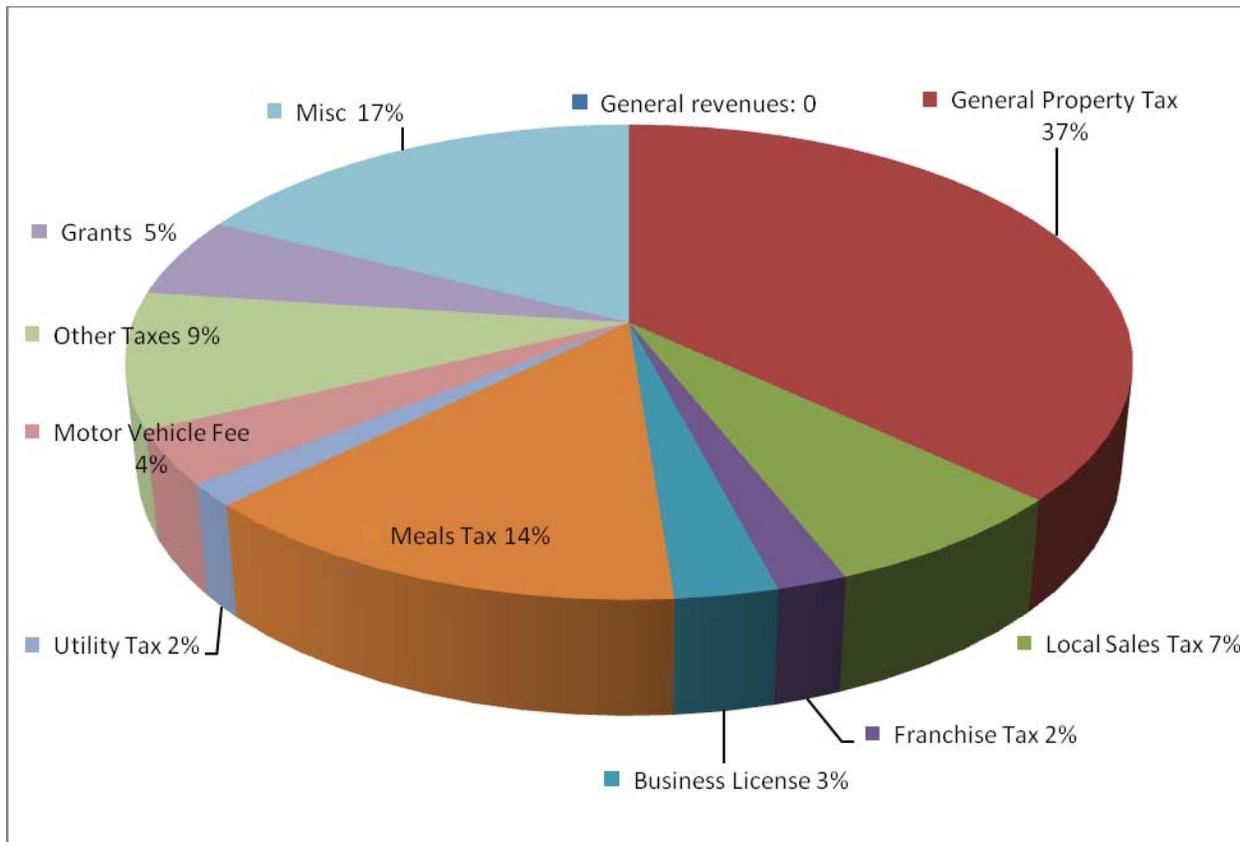
Governmental Activities

Revenues

For FY 11/12, revenues from governmental activities totaled \$3.79 million. General property taxes and other local taxes are the largest component of revenue (77 percent). General property tax revenues were \$1.4 million. The Town received reimbursement of \$138,898 from the Commonwealth of Virginia for taxes on individual automobiles.

Other local taxes and fees including revenue from local sales, franchise tax, business licenses, and meals taxes were \$ 1.5 million, an increase of 1 percent from June 30, 2012 due to a slight increase in the amount of tax collected.

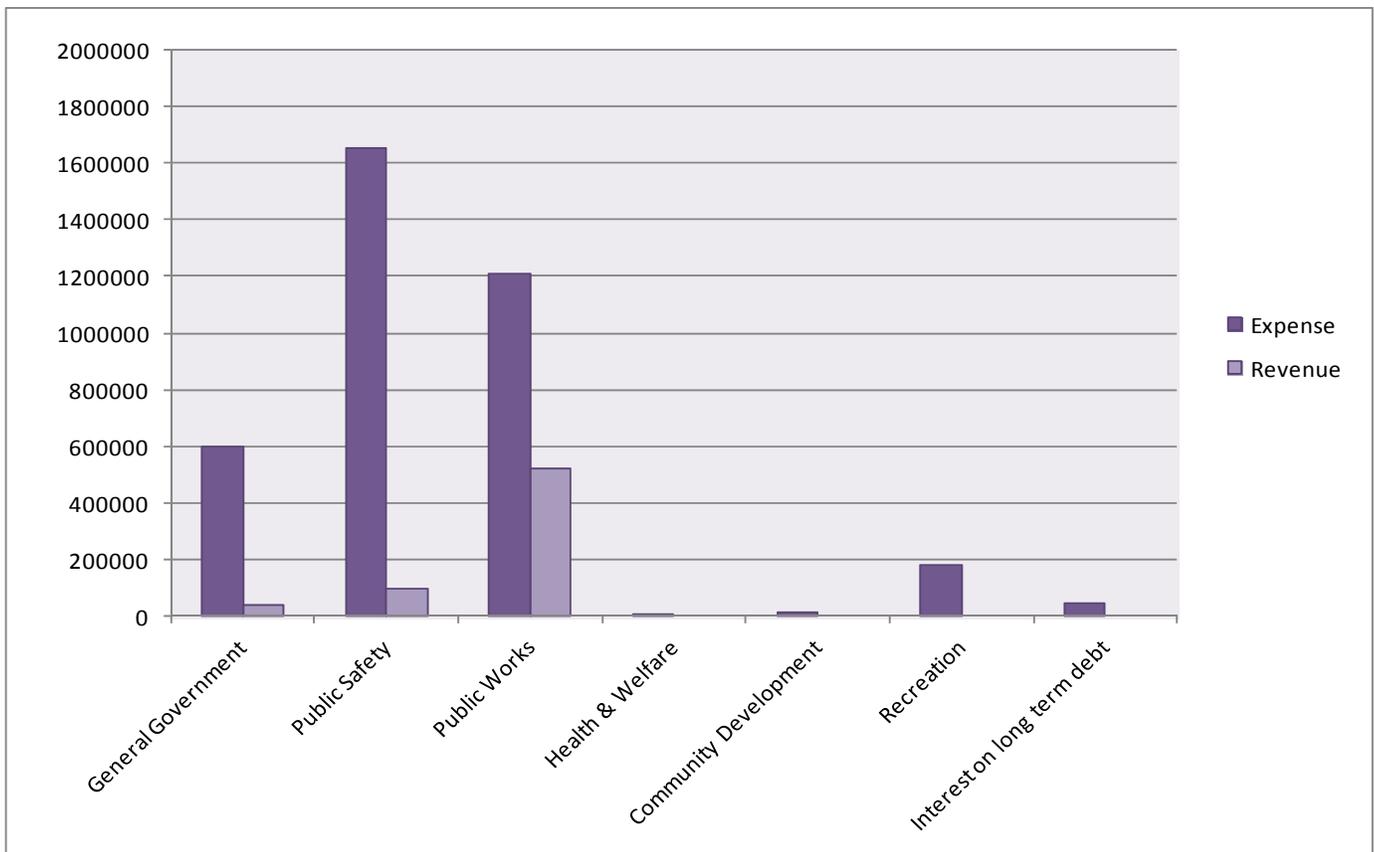
Revenue by Source-Governmental Activities



Expenses

For FY 11/12, expenses for governmental activities totaled \$3.7 million, which was an increase of \$147,000 over the previous year. This increase is mainly due to street maintenance projects in the Public Works Department. The Public Safety and Public Works departments account for 82 percent of the total expenses for governmental activities.

Program Expenses and Program Revenues – Governmental Activities



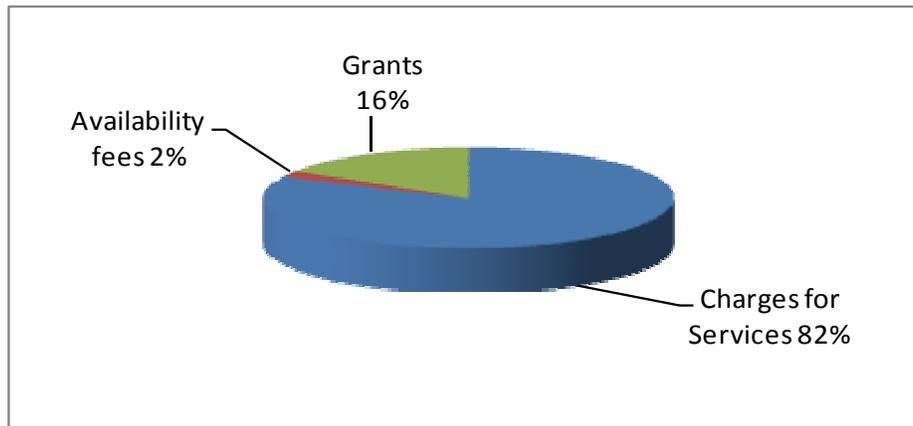
Business-type Activities

The Town's business-type activities are comprised of enterprise funds for water, sewer, and trash. Net assets of these business-type activities increased by 1.9 million, this is mainly due to the construction in progress of the new water treatment plant.

Revenues

Revenues for all business-type activities totaled \$ 5.63 million, which is a 26 percent increase over 2011. Charges for services increased as a result of an approved rate increase, availability fees were down due to less new construction and the Town received two grants totaling \$873,000; one for fluoride treatment and a federal grant for construction of the new water plant.

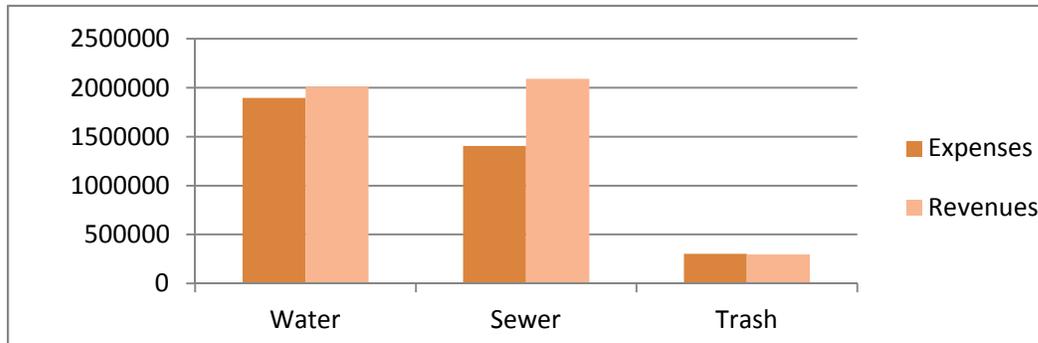
Revenues by Source - Business-type Activities



Expenses:

Expenses totaled \$3.28 million, which was a decrease of \$472,028 over FY 2011. The decrease was due mainly to the near completion of the design for the wastewater treatment plant upgrade.

Expenses and Program Revenues – Business-type Activities



The Town's Proprietary Funds provide the same type of information found in the government-wide financial statements for business-type activities but in more detail.

FUND FINANCIAL ANALYSIS

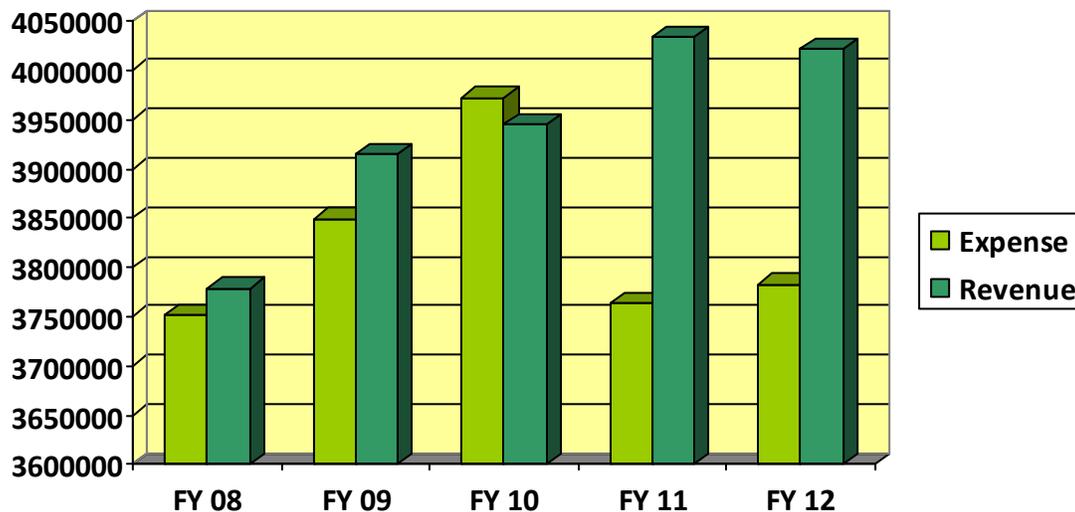
Governmental Funds

Governmental Funds include the General Fund of which the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The chief operating fund of the Town is the General Fund. At the end of FY 11/12, the undesignated fund balance was \$1.9 million which represents 52 percent of totals of the General Fund expenditures. The graph below shows General Fund summary financial information for the past five years.

Five Year General Fund Financial Summary



General Fund Budgetary Highlights

Actual revenues exceeded expenditures by \$238,271 in the General Fund before transfers to the trash fund and proceeds from capital leases. Fiscal year 2012 actual revenues were approximately \$12,283 less than fiscal year 2011 revenues. The tax revenues decreased in some areas and increased in others, basically the revenue remained neutral with the decrease being a small amount.

Fiscal year 2012 actual expenditures were approximately \$18,900 more than fiscal year 2011 expenditures. The increase was due primarily to price increases in gasoline and other materials.

Proprietary Funds

The Town's proprietary funds are comprised of water, sewer and trash. The Town accounts for these three proprietary accounts as enterprise funds.

Water Fund

The Water Fund ended FY 11/12 with unrestricted assets of \$2,121,307 which can be used for future fund expenses.

Sewer Fund

The Sewer Fund ended FY11/12 with unrestricted assets of \$2,012,988 which can be used for future fund expenses.

Trash Fund

Revenue in the Trash Fund in FY 11/12 was supplemented from the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

FY 11/12 primary government investment in capital assets for its governmental and business-type activities was \$26 million, net of depreciation (see chart below).

Capital Assets (net of depreciation in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land and improvements	\$ 640	\$ 341	\$ 87	\$ 387	\$ 727	\$ 728
Buildings and improvements	1,897	1,268	234	803	2,131	2,071
Infrastructure	3,520	3,494	12,872	12,812	16,392	3,494
Furniture, equipment & vehicles	2,181	2,087	1,444	1,510	3,625	14,899
Construction in Progress	-	-	15,021	12,373	15,021	12,373
Accumulated depreciation	(4,119)	(3,447)	(7,423)	(7,537)	(11,542)	(10,984)
Total	\$ 4,119	\$ 3,743	\$ 22,235	\$ 20,348	\$ 26,354	\$ 24,091

Total Capital Assets at June 30, 2012 were \$26 million compared to \$24 million at June 30, 2011, resulting in an increase of approximately \$2 million in the total Capital Assets. The majority of this increase is due to the construction in progress of the new water treatment plant.

Water and sewer lines continue to make up a majority of the capital assets in the Business-type activity, with streets and roadways in the Government-type activity.

Additional information on the Town’s capital assets may be found in the notes to financial statements.

Long-term Debt

The Town’s total outstanding debt at the end of FY11/12 was \$15.8 million, with \$15 million of business-type activities debt supported by the individual funds, resulting in net debt of governmental activities of \$1.2 million. Capital leases and vacation pay are included in outstanding debt.

**Town of Strasburg Outstanding Debt
General Obligation and Revenue Bonds
June 30, 2012
(In millions)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ 1,067	\$ 1,256	\$ 14,512	\$ 12,922	\$ 15,579	\$ 14,178
Capital Lease	43	65	24	14	67	79
Compensated Absences	91	90	94	88	185	178
Total	<u>\$ 1,201</u>	<u>\$ 1,411</u>	<u>\$ 14,630</u>	<u>\$ 13,024</u>	<u>\$ 15,831</u>	<u>\$ 14,435</u>

During FY 11/12 the Town continued construction of a new water treatment facility in the amount of \$11,554,000 and a Rural Development grant not to exceed \$2,459,000 for a total project cost of \$14,013,000. The balance of the Town’s capital lease obligations decreased by \$17,000 due to paying off leases on vehicles.

ECONOMIC FACTORS

Growth in the Town is expected to remain slow, which will continue to cause general property and other local taxes to have little growth. Earnings on idle cash continue to remain low. It is expected that the Commonwealth of Virginia may continue to decrease it’s funding to localities, including law enforcement assistance and other grants.

The Town of Strasburg continued construction on a new water treatment plant and is in the design phase of an upgrade to the wastewater treatment plant. Availability fees and rate increases will be utilized to fund these projects.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the Town’s finances for those with an interest in the Town’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance or Town Manager, Town of Strasburg, PO Box 351, Strasburg, VA 22657.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Town of Strasburg, Virginia
Statement of Net Assets
As of June 30, 2012

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,862,538	\$ 2,889,297	\$ 4,751,835
Receivables			
Taxes	793,454	-	793,454
Accounts, net of allowance of \$34,145	64,624	656,818	721,442
Due from other governmental units	65,770	-	65,770
Internal balances	7,488	(7,488)	-
Inventory	7,635	157,897	165,532
Restricted assets:			
Cash and cash equivalents	67,389	1,506,117	1,573,506
Total current assets	\$ 2,868,898	\$ 5,202,641	\$ 8,071,539
Capital assets:			
Non-depreciable:			
Land	\$ 639,469	\$ 87,761	\$ 727,230
Construction in progress	-	15,021,390	15,021,390
Depreciable:			
Equipment	2,181,104	1,443,809	3,624,913
Buildings and improvements	1,897,297	234,387	2,131,684
Infrastructure	3,520,390	12,871,475	16,391,865
Accumulated depreciation	(4,119,433)	(7,422,886)	(11,542,319)
Total capital assets, net	\$ 4,118,827	\$ 22,235,936	\$ 26,354,763
Total assets	\$ 6,987,725	\$ 27,438,577	\$ 34,426,302
LIABILITIES			
Accounts payable	\$ 61,467	\$ 213,681	\$ 275,148
Retainage payable	-	446,935	446,935
Other liabilities	58,874	39,132	98,006
Customer deposits	-	64,964	64,964
Accrued interest payable	5,754	30,283	36,037
Unearned revenue	679,701	-	679,701
Noncurrent liabilities:			
Due within one year	216,100	1,592,276	1,808,376
Due in more than one year	984,531	13,037,788	14,022,319
Total liabilities	\$ 2,006,427	\$ 15,425,059	\$ 17,431,486
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,008,739	\$ 7,868,785	\$ 10,877,524
Restricted for proffers	67,389	-	67,389
Unrestricted	1,905,170	4,144,733	6,049,903
Total net assets	\$ 4,981,298	\$ 12,013,518	\$ 16,994,816

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
Statement of Activities
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 505,436	\$ 40,318	\$ -	\$ -
Public safety	1,723,170	-	99,792	-
Public works	1,210,481	-	-	521,818
Health and welfare	9,272	-	-	-
Community development	40,116	-	-	-
Parks, recreation and cultural	179,400	70,523	-	-
Interest on long-term debt	45,836	-	-	-
Total governmental activities	\$ 3,713,711	\$ 110,841	\$ 99,792	\$ 521,818
Business-type activities:				
Water Fund	\$ 1,437,482	\$ 2,005,028	\$ -	\$ 951,349
Sewer Fund	1,547,325	2,314,599	-	77,300
Trash Fund	295,362	285,855	-	-
Total business-type activities	\$ 3,280,169	\$ 4,605,482	\$ -	\$ 1,028,649
Total primary government	\$ 6,993,880	\$ 4,716,323	\$ 99,792	\$ 1,550,467

General revenues:
General property taxes
Other local taxes
Local sales tax
Franchise taxes
Business licenses
Meals tax
Utility tax
Motor vehicle licenses
Other taxes
Grants and contributions not restricted to specific programs
Revenue from the use of money and property
Miscellaneous
Transfers
Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

The notes to the financial statements are an integral part of this statement.

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (465,118)	\$ -	\$ (465,118)
(1,623,378)	-	(1,623,378)
(688,663)	-	(688,663)
(9,272)	-	(9,272)
(40,116)	-	(40,116)
(108,877)	-	(108,877)
(45,836)	-	(45,836)
<u>\$ (2,981,260)</u>	<u>\$ -</u>	<u>\$ (2,981,260)</u>
\$ -	\$ 1,518,895	\$ 1,518,895
-	844,574	844,574
-	(9,507)	(9,507)
<u>\$ -</u>	<u>\$ 2,353,962</u>	<u>\$ 2,353,962</u>
<u>\$ (2,981,260)</u>	<u>\$ 2,353,962</u>	<u>\$ (627,298)</u>
\$ 1,401,461	\$ -	\$ 1,401,461
267,608	-	267,608
73,739	-	73,739
107,798	-	107,798
527,138	-	527,138
57,970	-	57,970
139,039	-	139,039
350,241	-	350,241
206,826	-	206,826
72,216	41,627	113,843
57,580	39,486	97,066
533,048	(533,048)	-
<u>\$ 3,794,664</u>	<u>\$ (451,935)</u>	<u>\$ 3,342,729</u>
\$ 813,404	\$ 1,902,027	\$ 2,715,431
4,167,894	10,111,491	14,279,385
<u>\$ 4,981,298</u>	<u>\$ 12,013,518</u>	<u>\$ 16,994,816</u>

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FUND FINANCIAL STATEMENTS

Town of Strasburg, Virginia
 Balance Sheet
 Governmental Funds
 As of June 30, 2012

Exhibit 3

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,862,538
Receivables:	
Taxes	793,454
Accounts receivable	64,624
Due from other governmental units	65,770
Due from other funds	7,488
Inventory	<u>7,635</u>
Total current assets	\$ <u>2,801,509</u>
Restricted assets:	
Cash and cash equivalents	\$ <u>67,389</u>
Total assets	\$ <u><u>2,868,898</u></u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 61,467
Other liabilities	58,874
Deferred revenue	789,792
Total liabilities	<u>\$ 910,133</u>
Fund balances:	
Nonspendable - inventory	\$ 7,635
Restricted - proffers	67,389
Unassigned	1,883,741
Total fund balances	<u>\$ 1,958,765</u>
Total liabilities and fund balances	<u><u>\$ 2,868,898</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
As of June 30, 2012

Exhibit 4

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 1,958,765
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,118,827
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. This amount represents deferred tax revenue.	110,091
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,206,385)</u>
Net assets of governmental activities	<u>\$ 4,981,298</u>

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit 5

	<u>General</u>
REVENUES	
General property taxes	\$ 1,428,349
Other local taxes	1,525,357
Permits, privilege fees, and regulatory licenses	11,351
Fines and forfeitures	28,967
Miscellaneous	57,580
Revenue from the use of money and property	72,216
Charges for services	70,523
Intergovernmental	
Commonwealth	763,402
Federal	63,210
Total revenues	<u>\$ 4,020,955</u>
EXPENDITURES	
Current:	
General government administration	\$ 492,867
Public safety	1,705,800
Public works	1,051,948
Health and welfare	9,272
Parks, recreation, and cultural	141,934
Community development	40,116
Capital projects:	
Administrative	19,508
Public works	6,872
Parks, recreation, and cultural	32,180
Debt service:	
Principal	235,646
Interest	46,541
Total expenditures	<u>\$ 3,782,684</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 238,271</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	\$ (9,445)
Capital leases issued	24,323
Total other financing sources (uses)	<u>\$ 14,878</u>
Net change in fund balances	\$ 253,149
Fund balances at beginning of year	1,705,616
Fund balance at end of year	<u><u>\$ 1,958,765</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2012

Exhibit 6

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

Net change in fund balances - total governmental funds	\$ 253,149
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	(166,651)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(26,888)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the 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, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	211,323
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(22)
On July 1, 2011, the recreation fund, an enterprise fund, was closed out to the general fund; however, capital assets are not reported in governmental funds. As a result, this amount represents the transfer of capital assets from the recreation fund to the governmental activities.	<u>542,493</u>
Change in net assets of governmental activities	<u>\$ 813,404</u>

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
Statement of Net Assets
Proprietary Funds
As of June 30, 2012

Exhibit 7

	Water Fund	Sewer Fund	Trash Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,756,745	\$ 1,132,552	\$ -	\$ 2,889,297
Receivables:				
Accounts, net of allowance for uncollectible accounts \$34,145	267,014	346,190	43,614	656,818
Internal balances	-	-	(7,488)	(7,488)
Inventory	74,319	83,578	-	157,897
Total current assets	<u>\$ 2,098,078</u>	<u>\$ 1,562,320</u>	<u>\$ 36,126</u>	<u>\$ 3,696,524</u>
Restricted assets:				
Cash and cash equivalents	\$ 713,013	\$ 793,104	\$ -	\$ 1,506,117
Total restricted assets	<u>\$ 713,013</u>	<u>\$ 793,104</u>	<u>\$ -</u>	<u>\$ 1,506,117</u>
Capital assets, net of accumulated depreciation	<u>\$ 15,546,498</u>	<u>\$ 6,689,438</u>	<u>\$ -</u>	<u>\$ 22,235,936</u>
Total assets	<u>\$ 18,357,589</u>	<u>\$ 9,044,862</u>	<u>\$ 36,126</u>	<u>\$ 27,438,577</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 79,261	\$ 108,732	\$ 25,688	\$ 213,681
Retainage payable	446,935	-	-	446,935
Accrued wages	21,254	17,878	-	39,132
Bonds payable current portion	118,303	1,460,406	-	1,578,708
Lease and other obligations-current portion	1,879	11,689	-	13,568
Customer deposits payable	64,964	-	-	64,964
Accrued interest payable	26,504	3,779	-	30,283
Total current liabilities	<u>\$ 759,100</u>	<u>\$ 1,602,484</u>	<u>\$ 25,688</u>	<u>\$ 2,387,271</u>
Noncurrent liabilities:				
Compensated absences	\$ 50,866	\$ 43,308	\$ -	\$ 94,174
Bonds payable	11,934,245	998,938	-	12,933,182
Long-term lease and other obligations	-	10,432	-	10,432
Total noncurrent liabilities	<u>\$ 11,985,111</u>	<u>\$ 1,052,678</u>	<u>\$ -</u>	<u>\$ 13,037,788</u>
Total liabilities	<u>\$ 12,744,210</u>	<u>\$ 2,655,161</u>	<u>\$ 25,688</u>	<u>\$ 15,425,059</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,492,072	\$ 4,376,713	\$ -	\$ 7,868,785
Unrestricted	2,121,307	2,012,988	10,438	4,144,733
Total net assets	<u>\$ 5,613,379</u>	<u>\$ 6,389,701</u>	<u>\$ 10,438</u>	<u>\$ 12,013,518</u>

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

Exhibit 8

	Water Fund	Sewer Fund	Trash Fund	Recreation Fund	Total
OPERATING REVENUES					
Charges for services:					
Sale of water	\$ 1,952,537	\$ -	\$ -	\$ -	\$ 1,952,537
Sewer service charges	-	2,262,108	-	-	2,262,108
Trash collection fees	-	-	285,855	-	285,855
Late payment charges	52,491	52,491	-	-	104,982
Miscellaneous	1,813	37,673	-	-	39,486
Total operating revenues	<u>\$ 2,006,841</u>	<u>\$ 2,352,272</u>	<u>\$ 285,855</u>	<u>\$ -</u>	<u>\$ 4,644,968</u>
OPERATING EXPENSES					
Water treatment facilities, transmission, and distribution	\$ 389,033	\$ -	\$ -	\$ -	\$ 389,033
Personnel	901,277	790,517	-	-	1,691,794
Operation and maintenance	-	506,955	-	-	506,955
Trash collection	-	-	295,362	-	295,362
Depreciation	120,029	229,890	-	-	349,919
Total operating expenses	<u>\$ 1,410,339</u>	<u>\$ 1,527,362</u>	<u>\$ 295,362</u>	<u>\$ -</u>	<u>\$ 3,233,063</u>
Operating income (loss)	<u>\$ 596,502</u>	<u>\$ 824,910</u>	<u>\$ (9,507)</u>	<u>\$ -</u>	<u>\$ 1,411,905</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	\$ 25,993	\$ 15,634	\$ -	\$ -	\$ 41,627
Availability fees	77,800	77,300	-	-	155,100
Interest expense	(27,143)	(19,963)	-	-	(47,106)
Total nonoperating revenues (expenses)	<u>\$ 76,650</u>	<u>\$ 72,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,621</u>
Income before contributions and transfers	<u>\$ 673,152</u>	<u>\$ 897,881</u>	<u>\$ (9,507)</u>	<u>\$ -</u>	<u>\$ 1,561,526</u>
Capital contributions and construction grants	<u>\$ 873,549</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 873,549</u>
OPERATING TRANSFERS					
Transfers out	\$ -	\$ -	\$ -	\$ (533,048)	\$ (533,048)
Change in net assets	<u>\$ 1,546,701</u>	<u>\$ 897,881</u>	<u>\$ (9,507)</u>	<u>\$ (533,048)</u>	<u>\$ 1,902,027</u>
Total net assets - beginning	<u>4,066,678</u>	<u>5,491,820</u>	<u>19,945</u>	<u>533,048</u>	<u>10,111,491</u>
Total net assets - ending	<u>\$ 5,613,379</u>	<u>\$ 6,389,701</u>	<u>\$ 10,438</u>	<u>\$ -</u>	<u>\$ 12,013,518</u>

The notes to the financial statements are an integral part of this statement.

Town of Strasburg, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,984,032	\$ 2,320,164
Payments to suppliers for goods and services	(1,261,067)	(426,003)
Payments to employees for services	(894,141)	(788,716)
Net cash provided by (used in) operating activities	<u>\$ (171,176)</u>	<u>\$ 1,105,445</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	\$ -	\$ -
Transfers from other funds	-	-
Net cash provided by (used in) noncapital financing activities	<u>\$ -</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset additions	\$ (2,307,589)	\$ (473,123)
Principal payments on bonds	(272,097)	(251,271)
Principal payments on lease obligations	(5,237)	(16,329)
Proceeds from indebtedness	2,112,897	31,334
Interest payments	(188,972)	(20,763)
Capital contributions from customers - tap fees	77,800	77,300
Capital contributions from others	873,549	-
Net cash provided by (used in) capital and related financing activities	<u>\$ 290,351</u>	<u>\$ (652,852)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	\$ 25,993	\$ 15,634
Net cash provided by (used in) investing activities	<u>\$ 25,993</u>	<u>\$ 15,634</u>
Net increase (decrease) in cash and cash equivalents	\$ 145,168	\$ 468,227
Cash and cash equivalents (including restricted) - beginning	2,324,590	1,457,429
Cash and cash equivalents (including restricted) - ending	<u>\$ 2,469,758</u>	<u>\$ 1,925,656</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 596,502	\$ 824,910
Depreciation expense	120,029	229,890
(Increase) decrease in accounts receivable	(23,953)	(32,108)
(Increase) decrease in inventories	34,373	6,477
Increase (decrease) in customer deposits	1,144	-
Increase (decrease) in accounts payable	(906,407)	74,475
Increase (decrease) in accrued wages	2,291	371
Increase (decrease) in accrued leave	4,845	1,430
Net cash provided by (used in) operating activities	<u>\$ (171,176)</u>	<u>\$ 1,105,445</u>
Supplemental disclosure:		
Interest paid during the year	<u>\$ 188,972</u>	<u>\$ 20,763</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 9

Trash Fund	Recreation Fund	Total
\$ 286,018	\$ -	\$ 4,590,214
(293,506)	(9,538)	(1,990,114)
-	-	(1,682,857)
<u>\$ (7,488)</u>	<u>\$ (9,538)</u>	<u>\$ 917,243</u>
\$ -	\$ 9,445	\$ 9,445
7,488	-	7,488
<u>\$ 7,488</u>	<u>\$ 9,445</u>	<u>\$ 16,933</u>
\$ -	\$ -	\$ (2,780,712)
-	-	(523,368)
-	-	(21,566)
-	-	2,144,231
-	-	(209,735)
-	-	155,100
-	-	873,549
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (362,501)</u>
\$ -	\$ -	\$ 41,627
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,627</u>
\$ -	\$ (93)	\$ 613,302
-	93	3,782,112
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,395,414</u>
\$ (9,507)	\$ -	\$ 1,411,905
-	-	349,919
163	-	(55,898)
-	-	40,850
-	-	1,144
1,856	(9,538)	(839,614)
-	-	2,662
-	-	6,275
<u>\$ (7,488)</u>	<u>\$ (9,538)</u>	<u>\$ 917,243</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,735</u>

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TOWN OF STRASBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Town of Strasburg, Virginia, (the “Town”) was chartered as a Town in 1761. The Town is governed by a mayor and an eight-member Town Council, who are elected at large for staggered four-year terms.

A. Financial Reporting Entity:

The Town of Strasburg, Virginia (government) is a municipal corporation governed by an elected mayor and eight-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units – There were no blended component units for the Town for the year ended June 30, 2012.

Discretely Presented Component Units – There were no discretely presented component units for the Town for the year ended June 30, 2012.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Statement of Net Assets - The Statement of Net Assets is designed to display financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Assets and will report depreciation expense - the cost of “using up” capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

The Statement of Net Activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales, which are collected by the state and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County. Utility taxes are collected by the utilities and remitted directly to the Town.

Licenses, permits, fines and rents 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 the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

The Water and Sewer Funds provide maintenance to the water and sewer lines and pump stations and derives the majority of their revenues through user charges and fees.

The Recreation fund was closed during fiscal year 2012 and activity will now be reported in the general fund.

The Trash Fund provides trash collection and landfill disposal to the Town and derives the majority of its revenue through user charges.

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the government, are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Assets, liabilities, and net assets or equity (continued)

2. *Receivables and payables (continued)*

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

3. *Property Taxes*

The Town collects real property taxes semi-annually and personal property taxes annually. Real property and personal property is assessed by the County of Shenandoah Commissioner of Revenue annually on property owned on January 1st and July 1st for real estate and January 1st for personal property. Town Council adopts tax rates in April of each year as a part of the budget process. Real and personal property taxes are levied as of January 1st and July 1st and are due on June 5th and December 5th of each year. Penalties accrue on the unpaid balances at this date. Interest is charged on unpaid balances beginning December 6th and June 6th. Unpaid real property taxes constitute a lien against the property. The Town bills and collects its own property taxes.

4. *Allowance for Uncollectible Accounts*

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to approximately \$28,238 at June 30, 2012 and the allowance for uncollectible water, sewer and trash billings amounted to approximately \$34,145 at June 30, 2012.

5. *Inventory*

Inventory is valued at cost, using the *first in, first out* method. The cost is recorded as an expense at the time the individual inventory items are consumed, rather than when purchased.

6. *Use of Estimates*

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

7. *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 the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Assets, liabilities, and net assets or equity (continued)

7. Capital assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest capitalized during the current year amounted to \$283,178.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

Land improvements	10-15 years
Water plant	50 years
Sewer plant	30-50 years
Reservoir and storage	10-20 years
Lines and meters	10-50 years
Buildings and pool	20 years
Maintenance building and equipment	30 years
Equipment	5-50 years
Vehicles	5-15 years

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings or equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

8. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Assets, liabilities, and net assets or equity (continued)

9. Long-term obligations (continued)

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

10. Fund equity

Beginning with fiscal year 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

In the general fund, the Town strives to maintain an unassigned fund balance to be used to fund unanticipated emergencies of \$1.5 million or 30% of the total general fund operating expenditures.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Assets, liabilities, and net assets or equity (continued)

11. Net assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds and net assets—governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$1,206,385) difference for the primary government is as follows:

	Primary Government
Bonds payable	\$ (1,066,946)
Accrued interest payable	(5,754)
Capital leases payable	(43,142)
Compensated absences	(90,543)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ <u>(1,206,385)</u>

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

**NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:
(CONTINUED)**

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this (\$166,651) difference for the primary government is as follows:

	Primary Government
Capital outlay	\$ 85,294
Loss on asset disposal	(1,180)
Depreciation expense	<u>(250,765)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (166,651)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the 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, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$211,323 difference in the primary government are as follows:

	Primary Government
Debt issued or incurred:	
Capital lease issuance	\$ (24,323)
Principal repayments:	
General obligation debt	\$ 189,069
Capital leases	<u>46,577</u>
Net adjustment to decrease <i>net changes in balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 211,323</u>

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

**NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:
(CONTINUED)**

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$23) difference for the primary government are as follows:

	Primary Government
Compensated absences	\$ (728)
Accrued interest	706
Net adjustment to decrease <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>(22)</u>

On July 1, 2011, the recreation fund, an enterprise fund, was closed out to the general fund; however, capital assets are not reported in governmental funds. As a result, this amount represents the transfer of capital assets from the recreation fund to the governmental activities. See Note 17 for further information.

	Primary Government
Recreation Fund:	
Capital assets, net of accumulated depreciation at 7/1/2011	\$ 542,493
Adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>542,493</u>

NOTE 3 — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary information

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 3 — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY: (CONTINUED)

A. Budgetary information (continued)

3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Council is authorized to transfer budgeted amounts within departments.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, except for the Capital expense budget.
8. All budget data presented in the accompanying financial statements is the amended budget as of June 30.

B. Excess of expenditures over appropriations

For the year ended June 30, 2012, there were no funds in which expenditures exceeded appropriations.

C. Deficit fund equity

At June 30, 2012, there were no funds with deficit fund equity.

NOTE 4 — DEPOSITS AND INVESTMENTS:

Deposits

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

Investments

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).

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 4 — DEPOSITS AND INVESTMENTS: (CONTINUED)

Custodial Credit Risk (Investments)

The Town had no investments at June 30, 2012.

NOTE 5—RECEIVABLES:

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

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>
Receivables:					
Property Taxes	\$ 821,692	\$ -	\$ -	\$ -	\$ 821,692
Accounts	64,624	280,474	364,488	46,001	755,587
Gross receivables	\$ 886,316	\$ 280,474	\$ 364,488	\$ 46,001	\$ 1,577,279
Less: allowance for Uncollectibles	(28,238)	(13,460)	(18,298)	(2,387)	(62,383)
Net total receivables	<u>\$ 858,078</u>	<u>\$ 267,014</u>	<u>\$ 346,190</u>	<u>\$ 43,614</u>	<u>\$ 1,514,896</u>

NOTE 6—DUE FROM OTHER GOVERNMENTAL UNITS:

	<u>Primary Government</u>
Commonwealth of Virginia:	
Communications tax	\$ 14,522
Fire programs	2,417
Sales tax	48,831
Total	<u>\$ 65,770</u>

NOTE 7—RESTRICTED ASSETS:

Restricted cash and cash equivalents consists of the following for June 30, 2012:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>Business-type Activities</u>			
Utility deposits	\$ 64,635	\$ -	\$ 64,635
Unspent bond proceeds	-	168,739	168,739
Bond reserve fund	648,378	624,365	1,272,743
Totals	<u>\$ 713,013</u>	<u>\$ 793,104</u>	<u>\$ 1,506,117</u>
<u>Governmental Funds</u>			
Restricted for proffers		\$ 67,389	<u>\$ 67,389</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 8—CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2012.

Governmental Activities

	Balance July 1, 2011	Increases	Decreases	Adjustments	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 340,510	\$ -	\$ -	\$ 298,959	\$ 639,469
Total capital assets not being depreciated	<u>\$ 340,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 298,959</u>	<u>\$ 639,469</u>
Other capital assets:					
Buildings and improvements	\$ 1,267,707	\$ 60,971	\$ -	\$ 568,619	\$ 1,897,297
Furniture, equipment and vehicles	2,086,744	24,323	(44,316)	114,353	2,181,104
Infrastructure	3,495,351	-	-	25,039	3,520,390
Total other capital assets	<u>\$ 6,849,802</u>	<u>\$ 85,294</u>	<u>\$ (44,316)</u>	<u>\$ 708,011</u>	<u>\$ 7,598,791</u>
Less: Accumulated depreciation for:					
Buildings and improvements	\$ (524,855)	\$ (52,126)	\$ -	\$ (373,902)	\$ (950,883)
Furniture, equipment and vehicles	(1,772,879)	(126,448)	43,136	(80,672)	(1,936,863)
Infrastructure	(1,149,593)	(72,191)	-	(9,903)	(1,231,687)
Total accumulated depreciation	<u>\$ (3,447,327)</u>	<u>\$ (250,765)</u>	<u>\$ 43,136</u>	<u>\$ (464,477)</u>	<u>\$ (4,119,433)</u>
Other capital assets, net	<u>\$ 3,402,475</u>	<u>\$ (165,471)</u>	<u>\$ (1,180)</u>	<u>\$ 243,534</u>	<u>\$ 3,479,358</u>
Net capital assets	<u><u>\$ 3,742,985</u></u>	<u><u>\$ (165,471)</u></u>	<u><u>\$ (1,180)</u></u>	<u><u>\$ 542,493</u></u>	<u><u>\$ 4,118,827</u></u>

Depreciation expense was allocated as follows:

General government administration	\$ 28,448
Public safety	39,844
Public works	153,263
Parks, recreation and cultural	29,210
Total depreciation expense	<u><u>\$ 250,765</u></u>

The Adjustments column represents those capital assets, net of accumulated depreciation, that were transferred from the Recreation Fund (e.g., Proprietary Activities) to the General Fund (e.g., Governmental Activities) as a result of the closing of the Recreation Fund.

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 8—CAPITAL ASSETS: (CONTINUED)

Enterprise Activities

	Balance July 1, 2011	Increases	Decreases	Adjustments	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 386,720	\$ -	\$ -	\$ (298,959)	\$ 87,761
Construction in progress	12,372,788	2,648,602	-	-	15,021,390
Total capital assets not being depreciated:	<u>\$ 12,759,508</u>	<u>\$ 2,648,602</u>	<u>\$ -</u>	<u>\$ (298,959)</u>	<u>\$ 15,109,151</u>
Other capital assets:					
Equipment and vehicles	\$ 1,510,352	\$ 47,810	\$ -	\$ (114,354)	\$ 1,443,809
Buildings and improvements	803,006	-	-	(568,619)	234,387
Infrastructure	12,812,215	84,300	-	(25,040)	12,871,475
Total other capital assets	<u>\$ 15,125,573</u>	<u>\$ 132,110</u>	<u>\$ -</u>	<u>\$ (708,013)</u>	<u>\$ 14,549,671</u>
Less: Accumulated depreciation for:					
Equipment and vehicles	\$ (1,168,775)	\$ (78,038)	\$ -	\$ 80,672	\$ (1,166,141)
Buildings and improvements	(548,166)	(5,293)	-	373,902	(179,557)
Infrastructure	(5,820,504)	(266,588)	-	9,904	(6,077,188)
Total accumulated depreciation	<u>\$ (7,537,445)</u>	<u>\$ (349,919)</u>	<u>\$ -</u>	<u>\$ 464,478</u>	<u>\$ (7,422,886)</u>
Other capital assets, net	<u>\$ 7,588,128</u>	<u>\$ (217,809)</u>	<u>\$ -</u>	<u>\$ (243,535)</u>	<u>\$ 7,126,785</u>
Net capital assets	<u>\$ 20,347,636</u>	<u>\$ 2,430,793</u>	<u>\$ -</u>	<u>\$ (542,494)</u>	<u>\$ 22,235,936</u>

The Adjustments column represents those capital assets, net of accumulated depreciation, that were transferred from the Recreation Fund (e.g., Proprietary Activities) to the General Fund (e.g., Governmental Activities) as a result of the closing of the Recreation Fund.

NOTE 9—LONG-TERM OBLIGATIONS:

Primary government – Annual requirements to amortize long-term debt and related interest are as follows:

Years Ending June 30,	Governmental Activities				Total	
	Capital Leases		General Obligation Bonds		Principal	Interest
	Principal	Interest	Principal	Interest		
2013	\$ 23,379	\$ 1,884	\$ 192,721	\$ 37,413	\$ 216,100	\$ 39,297
2014	19,763	926	162,722	30,833	182,485	31,759
2015	-	-	141,971	25,518	141,971	25,518
2016	-	-	128,708	20,227	128,708	20,227
2017	-	-	134,519	14,870	134,519	14,870
2018	-	-	138,507	9,451	138,507	9,451
2019	-	-	142,574	3,875	142,574	3,875
2020	-	-	25,224	245	25,223	245
Total	<u>\$ 43,142</u>	<u>\$ 2,810</u>	<u>\$ 1,066,946</u>	<u>\$ 142,432</u>	<u>\$ 1,110,087</u>	<u>\$ 145,242</u>

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

Primary government – Annual requirements to amortize long-term debt and related interest are as follows:
(continued)

Years Ending June 30,	Business-Type Activities Debt				Total	
	General Obligation Bonds		Capital Leases		Principal	Interest
	Principal	Interest	Principal	Interest		
2013	\$ 1,578,708	\$ 327,057	\$ 13,568	\$ 1,360	\$ 1,592,276	\$ 328,417
2014	452,863	321,803	10,432	661	463,295	322,464
2015	438,085	311,274	-	-	438,085	311,274
2016	418,454	300,633	-	-	418,454	300,633
2017	429,961	289,866	-	-	429,961	289,866
2018	438,510	278,983	-	-	438,510	278,983
2019	447,202	267,827	-	-	447,202	267,827
2020	316,544	259,273	-	-	316,544	259,273
2021	322,438	253,379	-	-	322,438	253,379
2022	328,488	247,328	-	-	328,488	247,328
2023	285,750	241,117	-	-	285,750	241,117
2024	246,375	234,741	-	-	246,375	234,741
2025	252,921	228,195	-	-	252,921	228,195
2026	259,641	221,475	-	-	259,641	221,475
2027	266,539	214,577	-	-	266,539	214,577
2028	273,620	207,496	-	-	273,620	207,496
2029	280,890	200,226	-	-	280,890	200,226
2030	288,353	192,763	-	-	288,353	192,763
2031	296,014	185,102	-	-	296,014	185,102
2032	303,878	177,238	-	-	303,878	177,238
2033	311,952	169,164	-	-	311,952	169,164
2034	320,240	160,876	-	-	320,240	160,876
2035	328,748	152,368	-	-	328,748	152,368
2036	337,482	143,634	-	-	337,482	143,634
2037	346,448	134,668	-	-	346,448	134,668
2038	355,653	125,463	-	-	355,653	125,463
2039	365,102	116,014	-	-	365,102	116,014
2040	374,802	106,314	-	-	374,802	106,314
2041	384,760	96,356	-	-	384,760	96,356
2042	394,982	86,134	-	-	394,982	86,134
2043	405,476	75,640	-	-	405,476	75,640
2044	416,249	64,867	-	-	416,249	64,867
2045	427,308	53,808	-	-	427,308	53,808
2046	438,660	42,456	-	-	438,660	42,456
2047	450,315	30,801	-	-	450,315	30,801
2048	462,279	18,837	-	-	462,279	18,837
2049	466,200	6,550	-	-	466,200	6,550
Total	\$ 14,511,890	\$ 6,544,303	\$ 24,000	\$ 2,021	\$ 14,535,890	\$ 6,546,324

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

Changes in Long-term Obligations

The following is a summary of changes in long-term obligations transactions of the Primary Government for the year ended June 30, 2012:

	Balance July 1, 2011	Issuances/ Increases	Retirements	June 30, 2012
Governmental activities:				
General obligation bonds	\$ 1,256,015	\$ -	\$ 189,069	\$ 1,066,946
Capital lease obligations	65,396	24,323	46,577	43,142
Compensated Absences	89,815	728	-	90,543
Total Governmental Activities	<u>\$ 1,411,226</u>	<u>\$ 25,051</u>	<u>\$ 235,646</u>	<u>\$ 1,200,631</u>
Business-type activities:				
General Obligation/Revenue Bonds	\$ 12,922,362	\$ 2,112,896	\$ 523,368	\$ 14,511,890
Capital lease obligations	14,232	31,334	21,566	24,000
Compensated Absences	87,899	6,275	-	94,174
Total Business-type Activities	<u>\$ 13,024,493</u>	<u>\$ 2,150,505</u>	<u>\$ 544,934</u>	<u>\$ 14,630,064</u>
Total	<u>\$ 14,435,719</u>	<u>\$ 2,175,556</u>	<u>\$ 780,580</u>	<u>\$ 15,830,695</u>

Total Amount Due	Amount Due Within One Year
------------------------	----------------------------------

Governmental Activities:

Capital Leases:

\$50,550 issued March 17, 2008, due in monthly installments of \$480 beginning March 17, 2008, through February 17, 2013, for the purchase of a 2006 Chevrolet C4500 dump truck. \$ 3,758 \$ 3,758

\$24,229 issued July 15, 2009 due in monthly installments of \$739.65 beginning August 4, 2009, through July 4, 2012, for the purchase of a 2008 Dodge Charger. 734 734

\$33,750 issued November 18, 2010, due in annual installments of \$12,105 beginning November 18, 2011, through November 18, 2013 for the purchase of a 2010 Dodge Charger. 22,911 11,247

\$24,323 issued July 12, 2011, due in annual installments of \$8,584 beginning July 12, 2011, through July 12, 2013 for the purchase of a 2011 Ford Crown Victoria. 15,739 7,640

Total capital leases \$ 43,142 \$ 23,379

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

	Total Amount Due	Amount Due Within One Year
	<u> </u>	<u> </u>
General Obligation Bonds:		
Series 2004, \$700,000, refinance of 1991 bonds issued October 26, 2004 payable in monthly installments of \$5,094, through October 2020, with interest at 3.75%.	\$ 395,217	\$ 47,108
Series 2004, \$1,124,800 bonds issued October 26, 2004 payable in varying semi-annual installments, through November 2019, with variable interest rates.	583,300	83,600
Series 2004B, \$500,000 revenue bonds issued October 26, 2004 payable in monthly installments of \$5,326, through October 2014, with interest at 3.15%.	<u>88,429</u>	<u>62,013</u>
Total general obligations bonds	\$ <u>1,066,946</u>	\$ <u>192,721</u>
Compensated absences	\$ <u>90,543</u>	\$ <u>-</u>
Total governmental activities	\$ <u><u>1,200,631</u></u>	\$ <u><u>216,100</u></u>
Business type activities:		
Capital leases:		
\$50,550 issued March 17, 2008, due in monthly installments of \$480 beginning March 17, 2008, through February 17, 2013, for the purchase of a 2006 Chevrolet C4500 dump truck.	\$ <u>3,758</u>	\$ <u>3,758</u>
\$31,334 issued August 1, 2011, due in annual installments of \$11,093 beginning August 1, 2011, through August 1, 2013, for the purchase of a GMC Sierra 3500.	<u>20,242</u>	<u>9,810</u>
Total capital leases	\$ <u><u>24,000</u></u>	\$ <u><u>13,568</u></u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATION: (CONTINUED)

	<u>Total Amount Due</u>	<u>Amount Due Within One Year</u>
General obligation bonds:		
Series 2004B, \$500,000 revenue bonds issued October 26, 2004 payable in monthly installments of \$5,326, through October 2014, with interest at 3.15%.	\$ 88,429	\$ 62,013
Series 1992 \$1,116,000, issued November 6, 1992, payable in semiannual installments of \$440,779, through May 2013, with interest at 3.0%.	79,760	79,760
Series 2001, \$1,926,000 issued November 2000, payable in semi-annual installments of \$48,150 through September 2022.	992,756	94,701
Series 2004, \$1,835,200 bonds issued October 26, 2004 payable in varying semi-annual installments, through November 2019, with variable interest rates.	951,700	136,400
Series 2009, \$9,000,000 bonds issued October 5, 2008 payable in monthly installments of \$31,860 through October 2049, with interest at 2.625%.	8,883,195	159,925
Series 2009, \$2,554,000 bonds issued October 5, 2008 payable in monthly installments of \$9,042 through October 2049, with interest at 2.625%.	<u>2,516,050</u>	<u>45,909</u>
Series 2011, \$1,000,000 general obligation note issued February 28, 2011 payable in monthly interest installments of \$1,575 through February 1, 2013 when the principal is due with interest at 1.890%.	<u>1,000,000</u>	<u>1,000,000</u>
Total general obligation bonds	\$ 14,511,890	\$ 1,578,708
Compensated absences	\$ 94,174	\$ -
Total Business-type Activities	<u>\$ 14,630,064</u>	<u>\$ 1,592,276</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

The Town has entered in lease agreements for various equipment and vehicles. These leases are being treated as capital leases in accordance with accounting principles general accepted in the United States of America. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Asset:		
Machinery and equipment	\$ 112,277	\$ 56,609
Less: Accumulated depreciaton	(49,731)	(28,093)
Total	<u>\$ 62,546</u>	<u>\$ 28,516</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2013	\$ 25,264	\$ 14,928
2014	20,689	11,093
Total minimum lease payments	\$ 45,953	\$ 26,021
Less: amount representing interest	(2,811)	(2,021)
Present value of minimum lease payments	<u>\$ 43,142</u>	<u>\$ 24,000</u>

NOTE 10—DEFINED BENEFIT PENSION PLAN:

Plan Description

Name of Plan: Virginia Retirement System (VRS)
 Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years service credit. 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 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2012 (CONTINUED)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Plan Description (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 5 years of service credit or age 50 with at least 25 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 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% 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%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 11.65% of annual covered payroll.

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Annual Pension Cost

For fiscal year 2012, the Town’s annual pension cost of \$292,351 was equal to the Town’s required and actual contributions.

Three-Year Trend Information for the Town			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	187,571	100.00%	-
June 30, 2011	292,778	100.00%	-
June 30, 2012	292,351	100.00%	-

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and projected salary increases include an inflation component of 2.50%. The actuarial value of the Town’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Funded Status and Funding Progress:

As of June 30, 2011, the most recent actuarial valuation date, the Town’s plan was 89.03% funded. The actuarial accrued liability for benefits was \$6,973,415, and the actuarial value of assets was \$6,208,251, resulting in an unfunded actuarial accrued liability (UAAL) of \$765,164. The covered payroll (annual payroll of active employees covered by the plan) was \$2,551,778, and ratio of the UAAL to the covered payroll was 29.99%.

The schedule of funding progress, presented as Required Supplementary Information following the note to the financial statements presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 11—SURETY BONDS:

	<u>Amount</u>
VML Insurance - Surety	
Public Employees Blanket Bond	\$ <u>550,000</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 12—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; and natural disasters for which the Town carries commercial insurance. The Town also provides a risk management program for workers' compensation. Premiums are paid by the general fund and all other funds and are available to pay claims, claim reserves and administrative costs of the program.

The Town is a member of the Virginia Municipal Group Self Insurance Association for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays Virginia Municipal Group contributions and assessments based upon classification 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 which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

NOTE 13—CONTINGENCIES:

The Town is obligated to the Shenandoah County School Board under an agreement dated September 4, 1973, whereby the Town has agreed to pay to the School Board \$200 for each water and sewer connection made to the primary school water and sewer lines until such time as seventy-percent of their investment is realized. The agreement does not state the method of determining the School Board's investment nor the duration of the agreement.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditure which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Under an agreement dated August 27, 1996 the Town is obligated to reimburse a developer for availability fees collected for connections to a sewer line paid for by the developer. The reimbursement shall not, in the aggregate, exceed \$250,000.

NOTE 14—INTERFUND RECEIVABLE AND PAYABLES:

Receivable and Payable Balances between the governmental and proprietary type funds at June 30, 2012 are as follows:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds	\$ 7,488	\$ -
Proprietary Funds	-	7,488
Total	<u>\$ 7,488</u>	<u>\$ 7,488</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 15—SIGNIFICANT CONTRACTS OUTSTANDING:

The Town had the following material contracts outstanding at June 30, 2012:

Project	Original Contract Amount	Amount Spent to Date	Amount of Contract Remaining at Year End
WTP Construction and Upgrades	\$ 11,596,725	\$ 10,787,541	\$ 809,184
Total	<u>\$ 11,596,725</u>	<u>\$ 10,787,541</u>	<u>\$ 809,184</u>

The Town will be constructing a waste water treatment plant and upgrading its water plant over the next few years. The costs of these projects will approximate \$25 million.

NOTE 16—INTERFUND TRANSFERS:

Interfund transfers for the year ended June 30, 2012 were made up of the following:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 9,445
Recreation Fund	9,445	-
Total	<u>\$ 9,445</u>	<u>\$ 9,445</u>

The purpose of this transfer was to close out the Recreation Fund to the General Fund. This amount represents the current financial resources (i.e., cash balance) less short-term debt (i.e. accounts payable, accrued wages) remaining in the Recreation Fund on 7/1/2011 that was transferred to the General Fund. See Note 17 on page 47.

NOTE 17—CLOSING OF RECREATION FUND:

Because the General Fund has traditionally had significant transfers of funding to support the Recreation Fund operations, the Town decided to close the Recreation Fund to the General Fund. The activities once reported in the Recreation Fund are now reported within the parks, recreation, and cultural department of the General Fund. While a transfer of the remaining short-term debt net of cash at 7/1/2011 of \$(9,445) was made to the General Fund, because the General Fund and the Recreation Fund have different measurement focuses, capital asset items are reported on Exhibit 6-Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities on page 19. The effect of the transfer between the governmental activities and business-type activities was as follows:

Balance at July 1, 2011	Primary Government	Business-Type Activities
Cash	\$ 93	\$ (93)
Capital Assets, net of depreciation	542,493	(542,493)
Short-term debt	(9,538)	9,538
Total Transfer	<u>\$ 533,048</u>	<u>\$ (533,048)</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 (CONTINUED)**

NOTE 18—LITIGATION:

At June 30, 2012, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

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REQUIRED SUPPLEMENTARY INFORMATION

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 1,424,090	\$ 1,424,090	\$ 1,428,349	\$ 4,259
Other local taxes	1,540,200	1,540,200	1,525,357	(14,843)
Permits, privilege fees, and regulatory licenses	14,000	14,000	11,351	(2,649)
Fines and forfeitures	35,000	35,000	28,967	(6,033)
Revenue from the use of money and property	71,000	71,000	72,216	1,216
Charges for services	71,371	71,371	70,523	(848)
Miscellaneous	119,100	119,100	57,580	(61,520)
Intergovernmental				
Commonwealth	720,690	720,690	763,402	42,712
Federal	-	-	63,210	63,210
Total revenues	<u>\$ 3,995,451</u>	<u>\$ 3,995,451</u>	<u>\$ 4,020,955</u>	<u>\$ 25,504</u>
EXPENDITURES				
Current:				
General government administration	\$ 718,956	\$ 718,956	\$ 492,867	\$ 226,089
Public safety	1,658,267	1,658,267	1,705,800	(47,533)
Public works	1,059,173	1,059,173	1,051,948	7,225
Health and welfare	-	-	9,272	(9,272)
Parks, recreation and cultural	167,124	167,124	141,934	25,190
Community development	21,560	21,560	40,116	(18,556)
Capital outlay:				
Administrative	60,600	60,600	19,508	41,092
Public safety	25,000	25,000	-	25,000
Public Works	9,000	9,000	6,872	2,128
Parks, recreation and cultural	25,000	25,000	32,180	(7,180)
Debt service:				
Principal	264,230	264,230	235,646	28,584
Interest	46,541	46,541	46,541	-
Total expenditures	<u>\$ 4,055,451</u>	<u>\$ 4,055,451</u>	<u>\$ 3,782,684</u>	<u>\$ 272,767</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (60,000)</u>	<u>\$ (60,000)</u>	<u>\$ 238,271</u>	<u>\$ 298,271</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (9,445)	\$ (9,445)
Capital leases issues	25,000	25,000	24,323	(677)
Total other financing sources and uses	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 14,878</u>	<u>\$ (10,122)</u>
Net change in fund balances	\$ (35,000)	\$ (35,000)	\$ 253,149	\$ 288,149
Fund balances - beginning	35,000	35,000	1,705,616	1,670,616
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,958,765</u>	<u>\$ 1,958,765</u>

Town of Strasburg, Virginia
 Schedule of Pension Funding Progress
 As of June 30, 2012

Exhibit 11

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/11	\$ 6,208,251	\$ 6,973,415	\$ 765,164	89.03%	\$ 2,551,778	29.99%
06/30/10	5,807,097	6,661,933	854,836	87.17%	2,585,560	33.06%
06/30/09	5,434,118	5,548,770	114,652	97.93%	2,607,379	4.40%
06/30/08	4,933,267	5,123,449	190,182	96.29%	2,435,135	7.81%
06/30/07	4,197,435	4,095,796	(101,639)	102.48%	2,315,410	-4.39%

STATISTICAL TABLES

Town of Strasburg, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years (1)

<u>Fiscal Year</u>	<u>General Government Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks, Recreation, and Cultural</u>	<u>Health and Welfare</u>	<u>Community Development</u>
2003-04	\$ 306,771	\$ 894,656	\$ 767,027	\$ 35,804	\$ -	\$ 9,425
2004-05	367,584	1,061,495	1,057,369	34,394	-	31,285
2005-06	449,250	1,220,144	1,019,816	36,844	-	23,490
2006-07	486,375	1,481,260	1,639,106	37,718	-	33,024
2007-08	619,959	1,574,469	1,271,651	41,378	-	28,697
2008-09	558,230	1,668,255	1,276,394	37,984	-	16,352
2009-10	684,734	1,670,107	1,409,366	33,150	6,971	35,085
2010-11	662,672	1,623,621	1,148,847	43,115	7,305	27,500
2011-12 (2)	505,436	1,723,170	1,210,481	179,400	9,272	40,116

(1) Information has only been available for 9 years.

(2) The recreation fund was closed in fiscal year 2012 and activity is now reported in the general fund

Table 1

Interest on Long- Term Debt	Water	Sewer	Trash	Recreation	Total
\$ 152,547	\$ 1,094,879	\$ 1,040,676	\$ 141,850	\$ 116,468	\$ 4,560,103
142,988	1,202,472	1,127,117	147,727	109,683	5,282,114
94,298	1,163,033	1,150,540	154,636	121,542	5,433,593
94,341	1,338,398	1,367,215	177,223	126,550	6,781,210
81,543	1,412,641	1,493,954	204,149	167,320	6,895,761
72,991	1,538,738	1,508,449	237,830	154,290	7,069,513
64,539	1,570,493	1,557,148	321,645	162,475	7,515,713
52,218	1,897,287	1,406,216	301,737	146,956	7,317,474
45,836	1,437,482	1,547,325	295,362	-	6,993,880

Town of Strasburg, Virginia
 Government-Wide Revenues
 Last Ten Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
2003-04	\$ 1,695,546	\$ 109,113	\$ 1,483,611
2004-05	1,976,301	112,483	1,715,695
2005-06	2,209,053	113,800	1,034,085
2006-07	2,463,080	118,020	1,333,523
2007-08	2,913,871	118,645	1,764,141
2008-09	3,183,282	114,186	1,034,438
2009-10	3,572,264	104,652	806,897
2010-11	3,972,733	103,424	1,035,935
2011-12	(2) 4,716,323	99,792	1,550,467

(1) Information has only been available for 9 years.

(2) The recreation fund was closed in fiscal year 2012 and activity is now reported in the general fund

Table 2

GENERAL REVENUES

General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Mis- cellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
\$ 1,109,876	\$ 984,212	\$ 3,690	\$ 70,225	\$ 23,895	\$ 5,480,168
1,226,085	1,083,472	45,433	69,046	18,004	6,246,519
1,253,388	1,434,673	108,373	102,263	19,941	6,275,576
1,431,693	1,348,759	144,228	63,400	12,013	6,914,716
1,687,773	1,512,217	64,685	106,001	30,045	8,197,378
1,340,095	1,519,691	129,314	64,409	182,912	7,568,327
1,425,274	1,445,993	118,392	237,937	174,125	7,885,534
1,494,641	1,496,970	114,722	80,493	218,961	8,517,879
1,401,461	1,523,533	113,843	97,066	206,826	9,709,311

Town of Strasburg, Virginia
 General Governmental Expenditures by Function (1)
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks, Recreation, and Cultural</u>	<u>Health and Welfare</u>	<u>Community Development</u>
2002-03	\$ 284,778	\$ 868,412	\$ 738,688	\$ 33,290	\$ -	\$ 17,729
2003-04	271,283	924,520	954,979	35,804	-	9,425
2004-05	361,205	1,096,548	907,818	34,394	-	31,285
2005-06	427,685	1,220,361	1,302,674	36,844	-	23,490
2006-07	437,281	1,511,221	1,534,847	37,718	-	33,024
2007-08	579,956	1,604,696	1,071,799	41,378	-	28,697
2008-09	691,506	1,634,834	1,078,850	37,984	-	16,352
2009-10	652,316	1,637,784	1,238,459	33,150	6,971	35,085
2010-11	735,357	1,678,911	982,633	43,115	7,305	27,500
2011-12 (2)	512,375	1,705,800	1,058,820	174,114	9,272	40,116

(1) Includes General Fund.

(2) The recreation fund was closed in fiscal year 2012 and activity is now reported in the general fund

Table 3

	<u>Debt</u>		<u>Total</u>
	<u>Service</u>		
\$	337,699	\$	2,280,596
	339,281		2,535,292
	325,793		2,757,043
	420,071		3,431,125
	417,798		3,971,889
	424,630		3,751,156
	390,146		3,849,672
	368,196		3,971,961
	288,894		3,763,715
	282,187		3,782,684

Town of Strasburg, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Property Taxes</u>	<u>Other Local Taxes</u>	<u>Permits, Privilege Fees, & Regulatory Licenses</u>	<u>Fines and Forfeitures</u>	<u>Revenue from the Use of Money and Property</u>	<u>Miscellaneous</u>
2002-03	\$ 887,560	\$ 785,729	\$ 17,366	\$ 28,731	\$ 3,945	\$ 52,441
2003-04	1,019,817	959,190	25,022	28,612	3,690	30,654
2004-05	1,025,514	1,031,560	51,912	50,758	12,251	64,288
2005-06	1,300,615	1,193,420	54,227	54,860	65,009	55,754
2006-07	1,436,157	1,207,590	23,989	53,809	58,975	56,770
2007-08	1,497,703	1,370,882	25,761	39,571	46,080	83,697
2008-09	1,456,136	1,515,840	12,155	44,711	57,375	56,319
2009-10	1,415,092	1,450,138	11,546	39,905	73,415	123,349
2010-11	1,509,841	1,501,187	13,715	32,715	71,389	85,346
2011-12	1,428,349	1,525,357	11,351	28,967	72,216	57,580

(1) Includes General Fund.

Table 4

<u>Charges for Services</u>	<u>Inter- governmental</u>	<u>Total</u>
\$ -	\$ 559,096	\$ 2,334,868
-	560,978	2,627,963
-	618,469	2,854,752
-	651,095	3,374,980
-	679,646	3,516,936
-	715,166	3,778,860
-	772,022	3,914,558
-	831,529	3,944,974
-	819,603	4,033,238
70,523	826,612	4,020,955

Town of Strasburg, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy (1,2,3)</u>	<u>Current Tax Collections (1,3)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections (1) (2)</u>	<u>Total Tax Collections</u>
2002-03	\$ 1,000,962	\$ 985,595	98.46%	\$ 36,330	\$ 1,021,925
2003-04	1,122,258	1,085,334	96.71%	13,322	1,098,656
2004-05 (3)	1,227,258	1,142,620	93.10%	10,098	1,152,718
2005-06 (3)	1,460,119	1,409,165	96.51%	6,926	1,416,091
2006-07 (3)	1,610,384	1,566,569	97.28%	8,486	1,575,055
2007-08 (3)	1,754,568	1,592,494	90.76%	11,914	1,604,408
2008-09 (3)	1,570,074	1,492,353	95.05%	63,311	1,555,664
2009-10 (3)	1,520,815	1,433,595	94.26%	88,877	1,522,472
2010-11 (3)	1,597,836	1,517,593	94.98%	90,515	1,608,108
2011-12 (3)	1,539,343	1,455,015	94.52%	66,824	1,521,839

(1) Exclusive of penalties.

(2) Does not include land redemptions.

(3) Includes Commonwealth of Virginia PPTRA Reimbursement

Table 5

<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Percent of Total Tax Collections to Tax Levy</u>
102.09%	\$ 62,448	6.24%
97.90%	63,344	5.64%
93.93%	119,409	9.73%
96.98%	144,369	9.89%
97.81%	125,554	7.80%
91.44%	337,276	19.22%
99.08%	182,278	11.61%
100.11%	188,670	12.41%
100.64%	189,336	11.85%
98.86%	133,623	8.68%

Town of Strasburg, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years
(in thousands)

Table 6

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation (1)		Total	Assessed vs Fair Market Value
				Real Estate	Personal Property		
2002-03	\$ 219,035	\$ 30,617	\$ 19,887	\$ 13,536	\$ 4	\$ 283,079	100.00%
2003-04	235,985	26,784	56,140	14,549	4	333,462	100.00%
2004-05	258,311	28,132	39,990	15,521	-	341,954	100.00%
2005-06	386,858	31,324	39,701	12,091	-	469,974	100.00%
2006-07	508,810	36,358	42,576	16,819	-	604,563	100.00%
2007-08	532,774	40,489	33,915	15,116	-	622,294	100.00%
2008-09	548,653	40,501	25,724	14,725	-	629,603	100.00%
2009-10	547,258	38,159	23,230	18,028	-	626,675	100.00%
2010-11	550,613	39,038	28,703	22,845	-	641,199	100.00%
2011-12	552,866	40,134	21,105	22,843	-	636,948	100.00%

(1) Assessed values are established by the State Corporation Commission.

**Town of Strasburg, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years**

Table 7

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Machninery & Tools</u>
2002-03	0.22	1.11	0.86
2003-04	0.22	1.11	0.86
2004-05	0.22	1.11	0.86
2005-06	0.22/0.16	1.11	0.86
2006-07	0.16	1.11	0.86
2007-08	0.16	1.11	0.86
2008-09	0.16	1.11	0.86
2009-10	0.16	1.11	0.86
2010-11	0.16	1.11	0.86
2011-12	0.16	1.11	0.86

(1) Rates are based on \$100 per assessed value.

For tax year 2006 the real estate tax rate was dropped to \$.16 per \$100 of assessed value.

Town of Strasburg, Virginia
Principal Taxpayers
June 30, 2012

Table 8

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2012 Assessed Value</u>	<u>Percentage of Total Assessed Value</u>
294 Front Royal LLC	Manufacturing	\$ 11,454,700	16%
King Plumbing and Heating	Rental Property	10,675,400	15%
IAC Corp	Manufacturing	8,763,800	12%
Jerry King	Rental Property	8,763,800	12%
Homewood Retirement	Rental and Shopping	6,474,600	9%
Toothman Investments	Real Estate/ Rental Property	5,977,400	8%
Massanutten Elderly	Rental Property	5,037,500	7%
Greenfield Ass. Living/Refledtions	Residential	4,898,800	7%
Frank Yeakle III	Rental Property	4,312,800	6%
Sunlight Properties	Real Estate/ Rental Property	<u>4,148,300</u>	6%
	Total 2012 Assesment	\$ <u><u>70,507,100</u></u>	

**Town of Strasburg, Virginia
 Computation of Legal Debt Margin
 For the Fiscal Year Ended June 30, 2012
 (in thousands)**

Table 9

Total assessed value of taxed real property		\$	552,866
Debt limit-10 percent of assessed value		\$	55,287
Amount of debt applicable to limit			
Gross debt	\$	15,579	
Less: Water and sewer revenue bonds		<u>(14,512)</u>	
		\$	<u>1,067</u>
Legal debt margin		\$	<u><u>54,220</u></u>

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COMPLIANCE

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*

THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF STRASBURG, VIRGINIA

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia as of and for the year ended June 30, 2012, which collectively comprise Town of Strasburg, Virginia's basic financial statements and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting:

Management of the Town of Strasburg, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Strasburg, Virginia'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 Town of Strasburg, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Strasburg, Virginia's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town of Strasburg, Virginia's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Town of Strasburg, Virginia'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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Strasburg, Virginia in a separate letter dated October 12, 2012.

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
October 12, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF STRASBURG, VIRGINIA

Compliance

We have audited Town of Strasburg, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each the Town of Strasburg, Virginia's major federal programs for the year ended June 30, 2012. Town of Strasburg, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Strasburg, Virginia's management. Our responsibility is to express an opinion on the Town of Strasburg, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Strasburg, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Town of Strasburg, Virginia's compliance with those requirements.

In our opinion, Town of Strasburg, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of Strasburg, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Strasburg, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Strasburg, Virginia's internal control over compliance.

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

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

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
October 12, 2012

**Town of Strasburg, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012**

<u>Federal Granting Agency/ Pass-through Agency/Program</u>	<u>Federal Catalog Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
<u>United States Department of Agriculture:</u>			
Pass Through Payments:			
State Department of Environmental Quality:			
Water and Waste Disposal Systems for Rural Communities	10.760	n/a	\$ <u>2,967,875</u>
<u>United States Department of Homeland Security:</u>			
Direct Payments			
FEMA Disaster Relief Disaster Assistance Projects	97.088	n/a	\$ <u>42,471</u>
<u>United States Department of Transportation, National Highway Traffic Safety Administration:</u>			
Pass Through Payments:			
State Department of Transportation:			
State and Community Highway Safety Funds	20.600	n/a	\$ 4,257
Highway Planning and Construction	20.205	n/a	<u>16,482</u>
Total Department of Transportation-pass through payments			<u>\$ 20,739</u>
Total Expenditures of Federal Awards			<u>\$ 3,031,085</u>

Federal expenditures, revenues, and capital contributions are reported in the Town's basic financial statements as follows:

Primary government:	
Governmental funds	\$ 63,210
Proprietary funds	<u>2,967,875</u>
Total primary government	<u>\$ 3,031,085</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF JUNE 30, 2012**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the activity of all federal award programs for the Town as of June 30, 2012. The Town's reporting entity is defined in note 1(A) of the Town's financial statements.

Federal award programs include direct expenditures, monies passed through to other governmental entities, and nonmonetary assistance.

B. Basis of Presentation:

The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town.

C. Basis of Accounting:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

D. Matching Costs:

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

E. Loans:

Federal expenditures reported on this schedule include loans of \$2,112,897.

II. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the agency. As a result, the amounts reported in federal financial reports may not agree with the amounts reported in the accompanying schedule.

TOWN OF STRASBURG, VIRGINIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes x no

- Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no

- Significant deficiency(ies) identified? yes x none reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes x no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
---------------------	---

10.760 Water and Waste Disposal Systems for Rural Communities
--------	--

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

Auditee qualified as low-risk auditee? yes x no

Section II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

None

Section IV-Summary Schedule of Prior Year Findings

There were no prior year findings.

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