Town of Strasburg, Virginia

Financial Report

Year Ended June 30, 2011

TOWN OF STRASBURG, VIRGINIA

Annual Financial Report
For the Fiscal Year Ended June 30, 2011

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
L. Carlyle Swafford

Donald M. LeVine
Rich Orndorff, Jr.
Justin Ritenour
Scott E. Terndrup

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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, each major fund and the aggregate remaining fund information of the Town of Strasburg, Virginia, as of and for the year ended June 30, 2011, 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, each major fund, and the aggregate remaining fund information of the Town of Strasburg, Virginia, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the Town of Luray, Virginia adopted the provisions of *GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011 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 opinions on the financial statements that collectively comprise the Town of Strasburg, Virginia's financial statements as a whole. The statistical section 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 section 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

Verona, Virginia
October 21, 2011

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, 2011. 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, 2011 by $14,279,387, which equals the total net assets of the Town. Of this amount, $2,187,444 is unrestricted and may be used to meet the Town's future obligations. Of the $2,187,444 unrestricted assets approximately $1,679,705 is related to governmental activities and is undesignated and available for future General Fund expenditures. The $507,739 remaining balance of unrestricted assets is related to business-type activities, which includes the Town's enterprise fund.

The Town's total long-term debt increased by $5,290,283 from $9,145,436 as of June 30, 2010 to $14,435,719 as of June 30, 2011. Of that increase $4,309,759 represents the construction in progress as of June 30, 2011 for a water treatment plant, while $236,038 in Governmental Activities was retired during fiscal year 2011.

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 $217,189 for the fiscal year, with an ending unreserved, unrestricted fund equity balance of $1.7 million.

The Town's proprietary funds reported net income of $835,425 mainly due to an approved rate increase and receiving more availability fees for new connections than estimated for new connections, $435,000 from an interim financing loan for engineering services for the upgrade to the wastewater treatment plant.

General Financial Highlights

The Town issued short-term interim financing totaling $1,000,000 during FY2010/11 for engineering services for the upgrade to the wastewater treatment plant. 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.

<u>Governmental activities</u> – 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.

<u>Business-type activities</u> – 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:

<u>Governmental Funds</u>

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, 2011
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 2,625	$ 2,477	$ 4,582	$ 3,120	$ 7,207	$ 5,597
Capital assets	3,743	3,781	20,347	15,533	24,090	19,314
Total Assets	$ 6,368	$ 6,258	$ 24,929	$ 18,653	$ 31,297	$ 24,911
Long-term debt outstanding	$ 1,183	$ 1,377	$ 12,517	$ 7,143	$ 13,700	$ 8,520
Other liabilities	1,017	1,078	2,301	2,234	3,318	3,312
Total Liabilities	$ 2,200	$ 2,455	$ 14,818	$ 9,377	$ 17,018	$ 11,832
Net Assets						
Invested in capital assets, net of related debt	$ 2,422	$ 2,257	$ 7,411	$ 7,364	$ 9,833	$ 9,621
Restricted for debt service	-	65	1,258	1,292	1,258	1,357
Restricted for other purposes	66	-	64	-	130	-
Unrestricted	1,680	1,481	1,378	620	3,058	2,101
Total net assets	$ 4,168	$ 3,803	$ 10,111	$ 9,276	$ 14,279	$ 13,079

The Town's combined net assets increased from $13 million at June 30, 2010 to $14.27 million at June 30, 2011 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 $10.11 million, an increase of about $835,000 from June 30, 2010. The increase is a result of an increase in water and sewer fees, and an increase in the number of availability fees paid by consumers. As with governmental activities, the majority (83 percent) of the net assets 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	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	$ (616,800)	$ (633,283)	$ -	$ -	$ (616,800)	$ (633,283)
Public safety	(1,520,197)	(1,565,455)	-	-	(1,520,197)	(1,565,455)
Public works	(647,412)	(842,469)	-	-	(647,412)	(842,469)
Health and welfare	(7,305)	(6,971)		-	(7,305)	(6,971)
Community development	(27,500)	(35,085)	-	-	(27,500)	(35,085)
Parks, recreation and cultural	(43,115)	(33,150)	-	-	(43,115)	(33,150)
Interest on long-term debt	(52,218)	(64,539)	-	-	(52,218)	(64,539)
Total government activities	$ (2,914,547)	$ (3,180,952)	$ -	$ -	$ (2,914,547)	$ (3,180,952)
Business-type activities:						
Water Fund	$ -	$ -	$ 112,390	$ 165,753	$ 112,390	$ 165,753
Sewer Fund	-	-	684,464	114,015	684,464	114,015
Trash Fund	-	-	(5,873)	(43,200)	(5,873)	(43,200)
Recreation Fund	-	-	(81,816)	(87,516)	(81,816)	(87,516)
Total business-type activities	$ -	$ -	$ 709,165	$ 149,052	$ 709,165	$ 149,052
Total primary government	$ (2,914,547)	$ (3,180,952)	$ 709,165	$ 149,052	$ (2,205,382)	$ (3,031,900)
General revenues:						
General property taxes	$ 1,494,641	$ 1,425,274	$ -	$ -	$ 1,494,641	$ 1,425,274
Local sales tax	257,470	245,707	-	-	257,470	245,707
Franchise taxes	112,760	124,028	-	-	112,760	124,028
Business licenses	108,129	115,266	-	-	108,129	115,266
Meals tax	532,016	496,868	-	-	532,016	496,868
Utility tax	50,010	50,482	-	-	50,010	50,482
Motor vehicle licenses	119,202	117,888	-	-	119,202	117,888
Other taxes	317,383	295,754	-	-	317,383	295,754
Grants and contributions not restricted to specific programs	218,961	174,125	-	-	218,961	174,125
Revenue from the use of money and property	71,389	73,415	43,333	44,977	114,722	118,392
Loss on disposal of assets	(1,696)	(7,759)	(12,017)	(40)	(13,713)	(7,799)
Insurance proceeds	-	-	-	128,986	-	128,986
Miscellaneous	85,346	113,349	8,860	3,401	94,206	116,750
Transfers	(86,084)	(99,695)	86,084	99,695	-	-
Total general revenues	$ 3,279,527	$ 3,124,702	$ 126,260	$ 277,019	$ 3,405,787	$ 3,401,721
Change in net assets	$ 364,980	$ (56,250)	$ 835,425	$ 426,071	$ 1,200,405	$ 369,821
Net assets - beginning	3,802,914	3,859,164	9,276,068	8,849,997	13,078,982	12,709,161
Net assets - ending	$ 4,167,894	$ 3,802,914	$ 10,111,493	$ 9,276,068	$ 14,279,387	$ 13,078,982

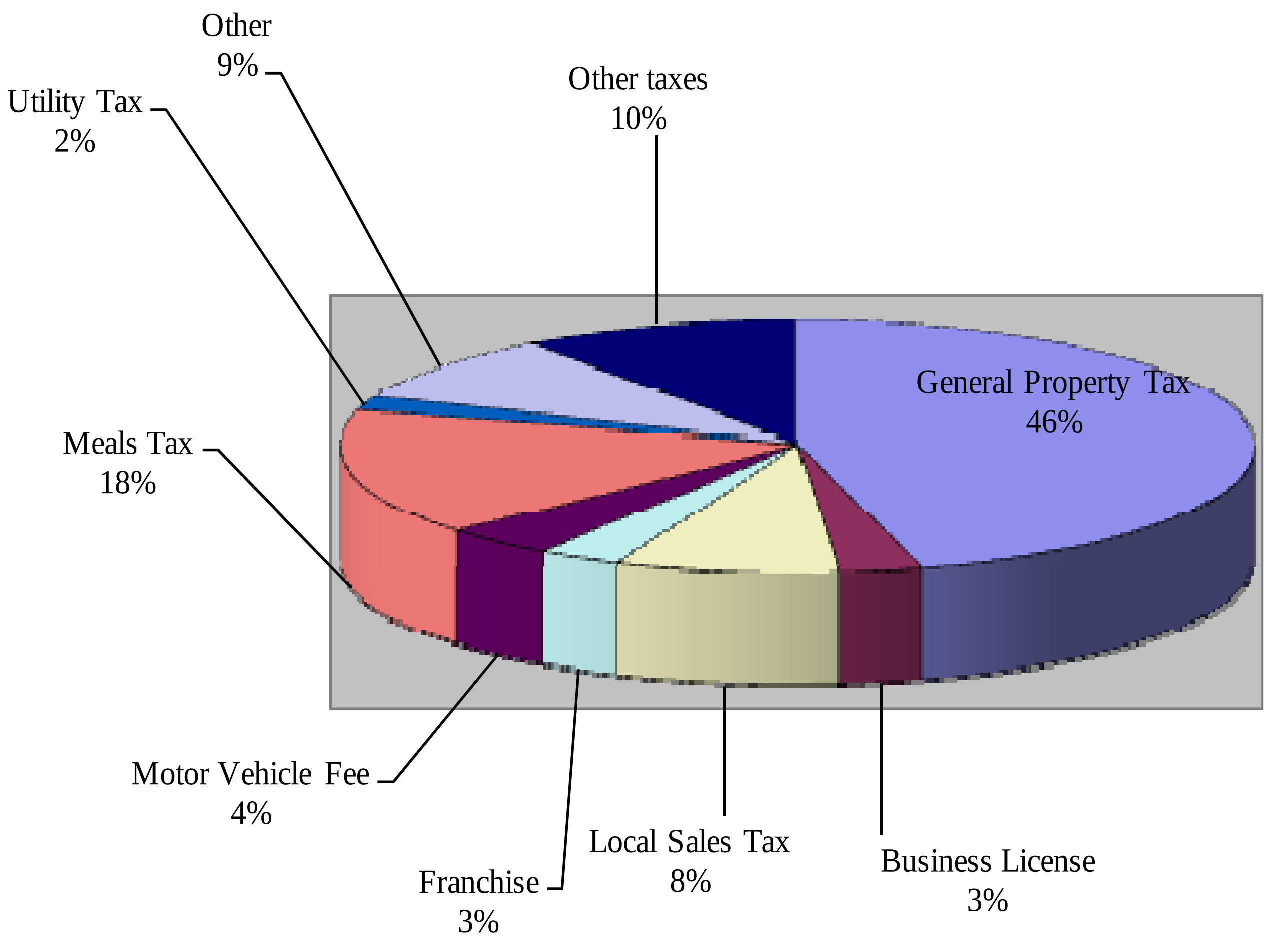
Governmental Activities

Revenues

For FY 10/11, revenues from governmental activities totaled $4.03 million. General property taxes and other local taxes are the largest component of revenue (75 percent). General property tax revenues were $1.5 million. The Town received reimbursement of $138,898 from the Commonwealth of Virginia for taxes on individual automobiles. Total property tax revenues increased by $94,749 (6.7 percent) over the prior fiscal year, due to more stringent collection procedures.

Other local taxes and fees including revenue from local sales, franchise tax, business licenses, and meals taxes were $ 1.5 million, an increase of 4 percent from June 30, 2010 due to a slight increase in the amount of cigarette, meals and sales tax collected.

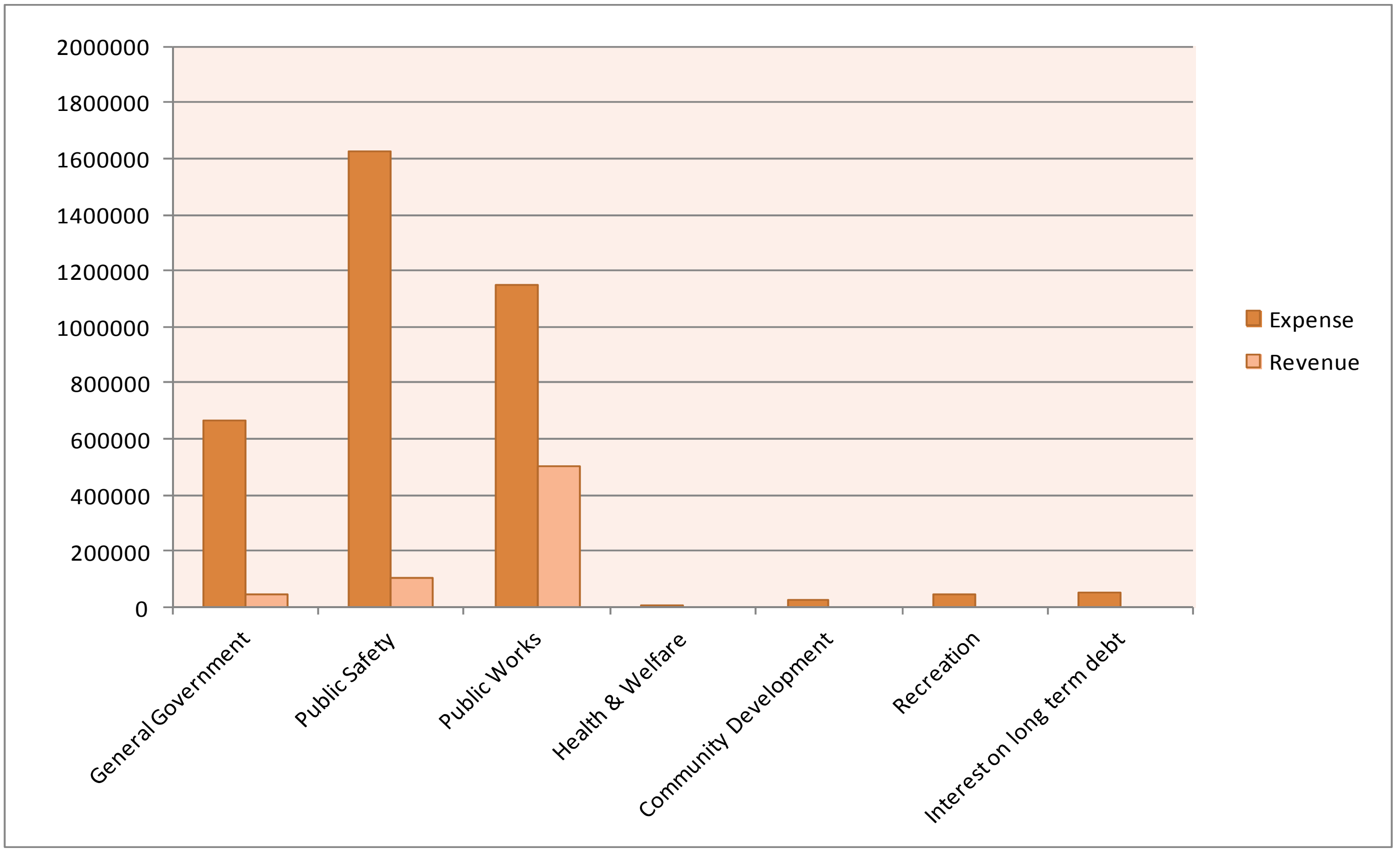
Revenue by Source-Governmental Activities



Expenses

For FY 10/11, expenses for governmental activities totaled $3.6 million, which was a decrease of $338,000 over the previous year. This decrease is mainly due to street maintenance projects in the Public Works Department being carried over to the next budget year. 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



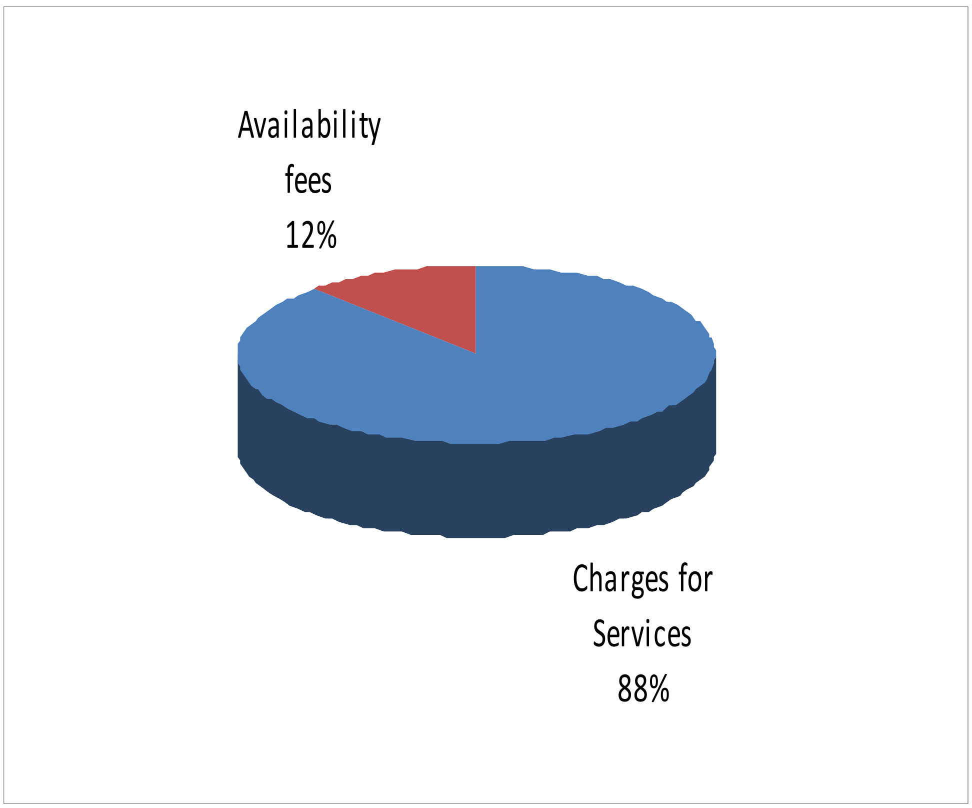
Business-type Activities

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 $835,000, of which $435,000 remains from interim financing for engineering fees associated with the upgrade to the wastewater treatment plant. The remaining balance is from water and sewer availability fees, revenue from which came in higher than estimated.

Revenues

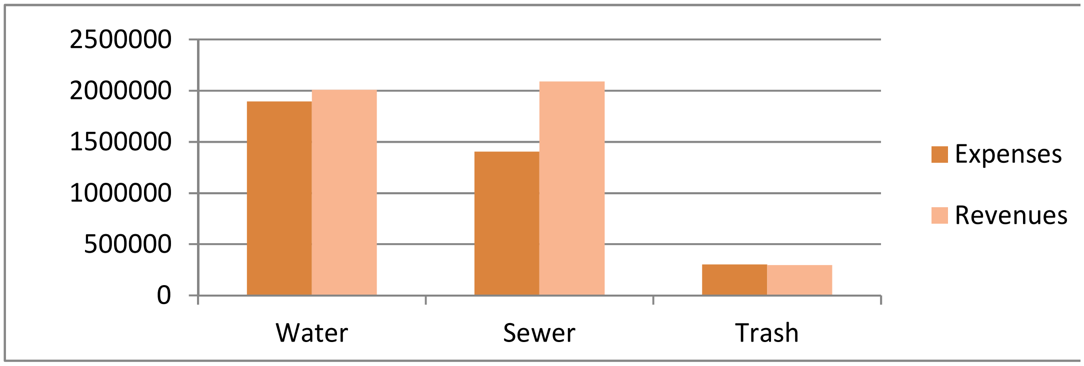
Revenues for all business-type activities totaled $ 4.46 million, of which 88 percent were charges for services for water and sewer. Charges for services increased as a result of an approved rate increase and availability fees increased due to the number of water and sewer availability fees exceeding estimates.

Revenues by Source - Business-type Activities



Expenses:
Expenses totaled $3.75 million, which was an increase of $140,435 over FY 09/10. The increase was due mainly to support operations and engineering fees for the wastewater treatment plant upgrade.

Expenses and Program Revenues – Business-type Activities



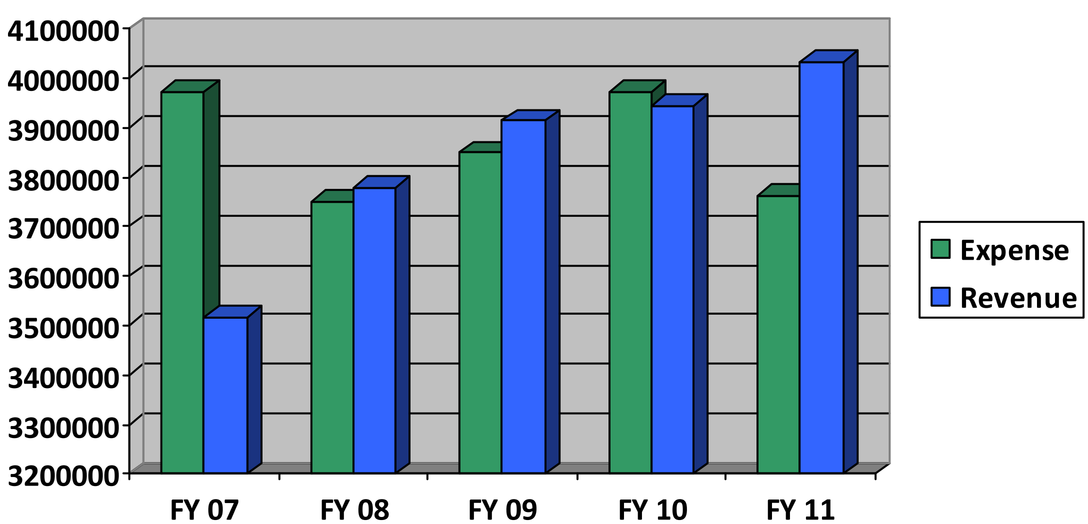
The Town's Proprietary Funds provide the same type of information found in the government-wide financial statements for business-type activities but in more detail.

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 10/11, the undesignated fund balance was $1.7 million which represents 45 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 $269,523 in the General Fund before transfers to the trash and recreation funds and proceeds from capital leases. Fiscal year 2011 actual revenues were approximately $88,264 more than fiscal year 2010 revenues. The increase was due to receiving more in revenue from general property taxes, meals tax, and cigarette tax.

Fiscal year 2011 actual expenditures were approximately $208,246 less than fiscal year 2010 expenditures. The decrease was due primarily to road improvements being continued into the next budget year, and expense reduction in the various departments.

Proprietary Funds

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

Water Fund

The Water Fund ended FY 10/11 with unrestricted assets of $221,312 which can be used for future fund expenses.

Sewer Fund

The Sewer Fund ended FY10/11 with unrestricted assets of $1,146,018 which can be used for future fund expenses.

Trash Fund

Revenue in the Trash Fund in FY 10/11 was supplemented from the General Fund.

Recreation Fund

Revenue in the Recreation Fund in FY 10/11 was supplemented from the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

FY 10/11 primary government investment in capital assets for its governmental and business-type activities was $24 million, net of depreciation (see chart below).

Capital Assets (net of depreciation in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land and improvements	$ 341	$ 240	$ 387	$ 387	$ 728	$ 627
Buildings and improvements	1,268	1,237	803	797	2,071	2,034
Infrastructure	3,494	3,495	12,812	12,869	16,306	3,495
Furniture, equipment & vehicles	2,087	2,121	1,510	1552	3,597	14,990
Construction in Progress	-	-	12,373	7,186	12,373	7,186
Accumulated depreciation	(3,447)	(3,312)	(7,537)	(7,259)	(10,984)	(10,571)
Total	$ 3,743	$ 3,781	$ 20,348	$ 15,532	$ 24,091	$ 19,313

Total Capital Assets at June 30, 2011 were $24 million compared to $19 million at June 30, 2010, resulting in an increase of approximately $6 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 FY10/11 was $14.4 million, with $13 million of business-type activities debt supported by the individual funds, resulting in net debt of governmental activities of $1.4 million. Capital leases and vacation pay are included in outstanding debt.

Town of Strasburg Outstanding Debt
General Obligation and Revenue Bonds
June 30, 2011
(In millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	$ 1,256	$ 1,445	$ 12,922	$ 7,416	$ 14,178	$ 8,861
Capital Lease	65	78	14	26	79	104
Compensated Absences	90	88	88	92	178	180
Total	$ 1,411	$ 1,611	$ 13,024	$ 7,534	$ 14,435	$ 9,145

During FY 10/11 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 $58,000 due to paying off leases on vehicles.

ECONOMIC FACTORS

The Town of Strasburg has saw residential real estate activity increase slightly this year over the past year due in part to the Homewood development. Revenue in the General Fund increased due to more stringent collection of delinquent taxes, and a slight increase in meals, cigarette, and sales tax revenue.

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,539,087	$ 2,024,446	$ 3,563,533
Receivables			
Taxes	878,801	-	878,801
Accounts, net of allowance of $44,114	71,622	600,921	672,543
Due from other governmental units	66,217	-	66,217
Inventory	3,146	198,747	201,893
Restricted assets:			
Cash and cash equivalents	66,616	1,757,666	1,824,282
Total current assets	$ 2,625,489	$ 4,581,780	$ 7,207,269
Capital assets:			
Non-depreciable:			
Land	$ 340,510	$ 386,720	$ 727,230
Construction in progress	-	12,372,788	12,372,788
Depreciable:			
Equipment	2,086,744	1,510,352	3,597,096
Buildings and improvements	1,267,707	803,006	2,070,713
Infrastructure	3,495,351	12,812,215	16,307,566
Accumulated depreciation	(3,447,327)	(7,537,445)	(10,984,772)
Total capital assets, net	$ 3,742,985	$ 20,347,636	$ 24,090,621
Total assets	$ 6,368,474	$ 24,929,416	$ 31,297,890
LIABILITIES			
Accounts payable	$ 28,706	$ 1,009,245	$ 1,037,951
Retainage payable	-	485,547	485,547
Other liabilities	47,726	41,908	89,634
Customer deposits	-	63,820	63,820
Accrued interest payable	6,460	192,910	199,370
Unearned revenue	706,462	-	706,462
Noncurrent liabilities:			
Due within one year	227,796	507,740	735,536
Due in more than one year	1,183,430	12,516,753	13,700,183
Total liabilities	$ 2,200,580	$ 14,817,923	$ 17,018,503
NET ASSETS			
Invested in capital assets, net of related debt	$ 2,421,573	$ 7,411,042	$ 9,832,615
Restricted for debt service	-	1,258,395	1,258,395
Restricted for other purposes	66,616	64,225	130,841
Unrestricted	1,679,705	1,377,831	3,057,536
Total net assets	$ 4,167,894	$ 10,111,493	$ 14,279,387

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, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	$ 662,672	$ 45,872	$ -	$ -
Public safety	1,623,621	-	103,424	-
Public works	1,148,847	-	-	501,435
Health and welfare	7,305	-	-	-
Community development	27,500	-	-	-
Parks, recreation and cultural	43,115	-	-	-
Interest on long-term debt	52,218	-	-	-
Total governmental activities	$ 3,565,278	$ 45,872	$ 103,424	$ 501,435
Business-type activities:				
Water Fund	$ 1,897,287	$ 1,748,177	$ -	$ 261,500
Sewer Fund	1,406,216	1,817,680	-	273,000
Trash Fund	301,737	295,864	-	-
Recreation Fund	146,956	65,140	-	-
Total business-type activities	$ 3,752,196	$ 3,926,861	$ -	$ 534,500
Total primary government	$ 7,317,474	$ 3,972,733	$ 103,424	$ 1,035,935

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
Loss on disposal of assets
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.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (616,800)	$ -	$ (616,800)
(1,520,197)	-	(1,520,197)
(647,412)	-	(647,412)
(7,305)	-	(7,305)
(27,500)	-	(27,500)
(43,115)	-	(43,115)
(52,218)	-	(52,218)
$ (2,914,547)	$ -	$ (2,914,547)
$ -	$ 112,390	$ 112,390
-	684,464	684,464
-	(5,873)	(5,873)
-	(81,816)	(81,816)
$ -	$ 709,165	$ 709,165
$ (2,914,547)	$ 709,165	$ (2,205,382)
$ 1,494,641	$ -	$ 1,494,641
257,470	-	257,470
112,760	-	112,760
108,129	-	108,129
532,016	-	532,016
50,010	-	50,010
119,202	-	119,202
317,383	-	317,383
218,961	-	218,961
71,389	43,333	114,722
(1,696)	(12,017)	(13,713)
85,346	8,860	94,206
(86,084)	86,084	-
$ 3,279,527	$ 126,260	$ 3,405,787
$ 364,980	$ 835,425	$ 1,200,405
3,802,914	9,276,068	13,078,982
$ 4,167,894	$ 10,111,493	$ 14,279,387

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FUND FINANCIAL STATEMENTS

Town of Strasburg, Virginia
Balance Sheet
Governmental Funds
As of June 30, 2011

	General
ASSETS	
Cash and cash equivalents	$ 1,539,087
Receivables:	
Taxes	878,801
Accounts receivable	71,622
Due from other governmental units	66,217
Inventory	3,146
Total current assets	$ 2,558,873
Restricted assets:	
Cash and cash equivalents	$ 66,616
Total assets	$ 2,625,489
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 28,706
Other liabilities	47,726
Deferred revenue	843,441
Total liabilities	$ 919,873
Fund balances:	
Nonspendable - inventory	$ 3,146
Restricted - proffers	66,616
Unassigned	1,635,854
Total fund balances	$ 1,705,616
Total liabilities and fund balances	$ 2,625,489

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

Town of Strasburg, Virginia **Exhibit 4**
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
As of June 30, 2011

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	$	1,705,616
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,742,985
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.		136,979
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(1,417,686)
Net assets of governmental activities	$	4,167,894

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

		General
REVENUES		
General property taxes	$	1,509,841
Other local taxes		1,501,187
Permits, privilege fees, and regulatory licenses		13,715
Fines and forfeitures		32,157
Miscellaneous		85,346
Revenue from the use of money and property		71,389
Intergovernmental		
Commonwealth		752,856
Federal		66,747
Total revenues	$	4,033,238
EXPENDITURES		
Current:		
General government administration	$	717,365
Public safety		1,603,911
Public works		976,895
Health and welfare		7,305
Parks, recreation, and cultural		43,115
Community development		27,500
Capital projects:		
Administrative		17,992
Public safety		75,000
Public works		5,738
Debt service:		
Principal		236,038
Interest		52,856
Total expenditures	$	3,763,715
Excess (deficiency) of revenues over (under) expenditures	$	269,523
OTHER FINANCING SOURCES (USES)		
Transfers out	$	(86,084)
Capital leases issued		33,750
Total other financing sources (uses)	$	(52,334)
Net change in fund balances	$	217,189
Fund balances at beginning of year		1,488,427
Fund balance at end of year	$	1,705,616

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, 2011

Exhibit 6

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

Net change in fund balances - total governmental funds	$	217,189
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.		(37,710)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(15,200)
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.		202,288
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.		(1,587)
Change in net assets of governmental activities	$	364,980

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, 2011

Exhibit 7

	Water Fund	Sewer Fund	Trash Fund	Recreation Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,619,296	$ 405,057	$ -	$ 93	$ 2,024,446
Receivables:					
Accounts, net of allowance for uncollectible accounts $44,114	243,061	314,082	43,778	-	600,921
Inventory	108,692	90,055	-	-	198,747
Total current assets	$ 1,971,049	$ 809,194	$ 43,778	$ 93	$ 2,824,114
Restricted assets:					
Cash and cash equivalents	$ 705,294	$ 1,052,372	$ -	$ -	$ 1,757,666
Total restricted assets	$ 705,294	$ 1,052,372	$ -	$ -	$ 1,757,666
Capital assets,net of accumulated depreciation	$ 13,358,936	$ 6,446,207	$ -	$ 542,493	$ 20,347,636
Total assets	$ 16,035,279	$ 8,307,773	$ 43,778	$ 542,586	$ 24,929,416
LIABILITIES					
Current liabilities:					
Accounts payable	$ 947,056	$ 34,257	$ 23,832	$ 4,100	$ 1,009,245
Retainage payable	485,547	-	-	-	485,547
Accrued wages	18,963	17,507	-	5,438	41,908
Bonds payable current portion	117,342	379,924	-	-	497,266
Lease and other obligations-current portion	5,237	5,237	-	-	10,474
Customer deposits payable	63,820	-	-	-	63,820
Accrued interest payable	188,330	4,580	-	-	192,910
Total current liabilities	$ 1,826,295	$ 441,505	$ 23,832	$ 9,538	$ 2,301,170
Noncurrent liabilities:					
Compensated absences	$ 46,021	$ 41,878	$ -	$ -	$ 87,899
Bonds payable	10,094,406	2,330,690	-	-	12,425,096
Long-term lease and other obligations	1,879	1,879	-	-	3,758
Total noncurrent liabilities	$ 10,142,306	$ 2,374,447	$ -	$ -	$ 12,516,753
Total liabilities	$ 11,968,601	$ 2,815,952	$ 23,832	$ 9,538	$ 14,817,923
NET ASSETS					
Invested in capital assets, net of related debt	$ 3,140,072	$ 3,728,477	$ -	$ 542,493	$ 7,411,042
Restricted for debt service	641,069	617,326	-	-	1,258,395
Restricted for other purposes	64,225	-	-	-	64,225
Unrestricted	221,312	1,146,018	19,946	(9,445)	1,377,831
Total net assets	$ 4,066,678	$ 5,491,821	$ 19,946	$ 533,048	$ 10,111,493

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, 2011

Exhibit 8

	Water Fund	Sewer Fund	Trash Fund	Recreation Fund	Total
OPERATING REVENUES					
Charges for services:					
Sale of water	$ 1,722,966	$ -	$ -	$ -	$ 1,722,966
Sewer service charges	-	1,787,496	-	-	1,787,496
Trash collection fees	-	-	295,864	-	295,864
Recreation fees	-	-	-	65,140	65,140
Late payment charges	25,211	30,184	-	-	55,395
Miscellaneous	7,187	1,673	-	-	8,860
Total operating revenues	$ 1,755,364	$ 1,819,353	$ 295,864	$ 65,140	$ 3,935,721
OPERATING EXPENSES					
Water treatment facilities, transmission, and distribution	$ 828,945	$ -	$ -	$ -	$ 828,945
Personnel	906,030	809,711	-	54,692	1,770,433
Operation and maintenance	-	338,602	-	-	338,602
Trash collection	-	-	301,737	-	301,737
Swimming pool	-	-	-	57,909	57,909
Depreciation	131,010	232,757	-	33,972	397,739
Total operating expenses	$ 1,865,985	$ 1,381,070	$ 301,737	$ 146,573	$ 3,695,365
Operating income (loss)	$ (110,621)	$ 438,283	$ (5,873)	$ (81,433)	$ 240,356
NONOPERATING REVENUES (EXPENSES)					
Interest income	$ 29,235	$ 14,098	$ -	$ -	$ 43,333
Availability fees	261,500	273,000	-	-	534,500
Interest expense	(31,302)	(25,146)	-	(383)	(56,831)
Loss of disposal of assets	(12,017)	-	-	-	(12,017)
Total nonoperating revenues (expenses)	$ 247,416	$ 261,952	$ -	$ (383)	$ 508,985
Income before contributions and transfers	$ 136,795	$ 700,235	$ (5,873)	$ (81,816)	$ 749,341
OPERATING TRANSFERS					
Transfers in	$ -	$ -	$ 7,139	$ 78,945	$ 86,084
Change in net assets	$ 136,795	$ 700,235	$ 1,266	$ (2,871)	$ 835,425
Total net assets - beginning	3,929,883	4,791,586	18,680	535,919	9,276,068
Total net assets - ending	$ 4,066,678	$ 5,491,821	$ 19,946	$ 533,048	$ 10,111,493

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, 2011

	Water Fund	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 1,756,238	$ 1,762,893
Payments to suppliers for goods and services	(860,684)	(575,975)
Payments to employees for services	(909,363)	(810,007)
Net cash provided by (used in) operating activities	$ (13,809)	$ 376,911
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	$ -	$ -
Net cash provided by (used in) noncapital financing activities	$ -	$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset additions	$ (4,643,471)	$ (576,160)
Principal payments on bonds	(114,428)	(246,953)
Principal payments on lease obligations	(5,764)	(5,764)
Proceeds from indebtedness	4,885,887	1,000,000
Interest payments	104,353	(25,897)
Capital contributions from customers - tap fees	261,500	273,000
Proceeds from sales of capital assets	-	390
Net cash provided by (used in) capital and related financing activities	$ 488,078	$ 418,617
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	$ 29,235	$ 14,098
Net cash provided by (used in) investing activities	$ 29,235	$ 14,098
Net increase (decrease) in cash and cash equivalents	$ 503,504	$ 809,626
Cash and cash equivalents (including restricted) - beginning	1,821,086	647,803
Cash and cash equivalents (including restricted) - ending	$ 2,324,590	$ 1,457,429
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (110,621)	$ 438,283
Depreciation expense	131,010	232,757
(Increase) decrease in accounts receivable	(5,776)	(56,460)
(Increase) decrease in inventories	(26,186)	(59,347)
Increase (decrease) in customer deposits	6,650	-
Increase (decrease) in accounts payable	(5,553)	(178,026)
Increase (decrease) in accrued wages	(478)	940
Increase (decrease) in accrued leave	(2,855)	(1,236)
Net cash provided by (used in) operating activities	$ (13,809)	$ 376,911
Supplemental disclosure:		
Interest paid during the year	$ (104,353)	$ 25,897

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

Exhibit 9

Trash Fund	Recreation Fund	Total
$ 295,290	$ 65,140	$ 3,879,561
(302,429)	(64,718)	(1,803,806)
-	(54,928)	(1,774,298)
$ (7,139)	$ (54,506)	$ 301,457
$ 7,139	$ 78,945	$ 86,084
$ 7,139	$ 78,945	$ 86,084
$ -	$ (5,519)	$ (5,225,150)
-	(18,544)	(379,924)
-	-	(11,528)
-	-	5,885,887
-	(383)	78,073
-	-	534,500
-	-	390
$ -	$ (24,446)	$ 882,248
$ -	$ -	$ 43,333
$ -	$ -	$ 43,333
$ -	$ (7)	$ 1,313,122
-	100	2,468,989
$ -	$ 93	$ 3,782,111
$ (5,873)	$ (81,433)	$ 240,356
-	33,972	397,739
(574)	-	(62,810)
-	-	(85,533)
-	-	6,650
(692)	(6,809)	(191,080)
-	(236)	226
-	-	(4,091)
$ (7,139)	$ (54,506)	$ 301,457
$ -	$ 383	$ (78,073)

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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. 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, 2011.

Discretely Presented Component Units – There were no discretely presented component units for the Town for the year ended June 30, 2011.

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.

The statement of 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.

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 accounts for the operation of the Town's pool and parks and derives its primary revenue from user fees for recreational programs.

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

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."

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 fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. *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.

4. *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.

5. *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 $18,846 at June 30, 2011 and the allowance for uncollectible water, sewer and trash billings amounted to approximately $44,114 at June 30, 2011.

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.

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 $249,966.

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.

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.

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 ($1,417,686) difference for the primary government is as follows:

		Primary Government
Bonds payable	$	(1,256,015)
Accrued interest payable		(6,460)
Capital leases payable		(65,396)
Compensated absences		(89,815)
Net adjustment to reduce *fund balance-total governmental funds* to arrive at *net assets-governmental activities*	$	(1,417,686)

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 ($37,710) difference for the primary government is as follows:

		Primary Government
Capital outlay	$	213,952
Loss on asset disposal		(1,696)
Depreciation expense		(249,966)
Net adjustment to increase (decrease) *net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities*	$	(37,710)

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 $202,288 difference in the primary government are as follows:

Debt issued or incurred:		
Capital lease proceeds	$	(33,750)
Principal repayments:		
General obligation debt	$	189,473
Capital leases		46,565
Net adjustment to decrease *net changes in balances-total governmental funds* to arrive at *changes in net assets of governmental activities*	$	202,288

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 ($1,587) difference for the primary government is as follows:

Compensated absences	$	(2,225)
Accrued interest		638
Net adjustment to decrease *net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities*	$	(1,587)

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.

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.

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

B. Excess of expenditures over appropriations

For the year ended June 30, 2011, there were no funds in which expenditures exceeded appropriations.

C. Deficit fund equity

At June 30, 2011, 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).

Custodial Credit Risk (Investments)

The Town had no investments at June 30, 2011.

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:

	General	Water	Sewer	Trash	Total
Receivables:					
Property Taxes	$ 897,647	$ -	$ -	$ -	$ 897,647
Accounts	71,622	258,866	337,728	48,441	716,657
Gross receivables	$ 969,269	$ 258,866	$ 337,728	$ 48,441	$ 1,614,304
Less: allowance for Uncollectibles	(18,846)	(15,805)	(23,646)	(4,663)	(62,960)
Net total receivables	$ 950,423	$ 243,061	$ 314,082	$ 43,778	$ 1,551,344

NOTE 6—DUE FROM OTHER GOVERNMENTAL UNITS:

		Primary Government
Commonwealth of Virginia:		
Communications tax	$	13,217
Fire programs		1,323
Sales tax		48,559
Federal Government:		
Streetscape Tea 21		3,118
Total	$	66,217

NOTE 7—RESTRICTED ASSETS:

Restricted cash and cash equivalents consists of the following for June 30, 2011:

	Water Fund	Sewer Fund	Total
Business-type Activities			
Utility deposits	$ 64,225	$ -	$ 64,225
Unspent bond proceeds	-	435,046	435,046
Bond reserve fund	641,069	617,326	1,258,395
Totals	$ 705,294	$ 1,052,372	$ 1,757,666
Governmental Funds			
Restricted for proffers			$ 66,616

NOTE 8—CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2011.

Governmental Activities

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 239,794	$ 100,716	$ -	$ 340,510
Total capital assets not being depreciated	$ 239,794	$ 100,716	$ -	$ 340,510
Other capital assets:				
Buildings and improvements	$ 1,236,830	$ 30,877	$ -	$ 1,267,707
Furniture, equipment and vehicles	2,121,111	82,359	(116,726)	2,086,744
Infrastructure	3,495,351	-	-	3,495,351
Total other capital assets	$ 6,853,292	$ 113,236	$ (116,726)	$ 6,849,802
Less: Accumulated depreciation for:				
Buildings and improvements	$ (499,929)	$ (24,926)	$ -	$ (524,855)
Furniture, equipment and vehicles	(1,732,548)	(155,361)	115,030	(1,772,879)
Infrastructure	(1,079,914)	(69,679)	-	(1,149,593)
Total accumulated depreciation	$ (3,312,391)	$ (249,966)	$ 115,030	$ (3,447,327)
Other capital assets, net	$ 3,540,901	$ (136,730)	$ (1,696)	$ 3,402,475
Net capital assets	$ 3,780,695	$ (36,014)	$ (1,696)	$ 3,742,985

Depreciation expense was allocated as follows:	
General government administration	$ 28,736
Public safety	52,450
Public works	168,780
Total depreciation expense	$ 249,966

NOTE 8—CAPITAL ASSETS: (CONTINUED)

Enterprise Activities

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not being depreciated:				
Land	$ 386,720	$ -	$ -	$ 386,720
Construction in progress	7,186,105	5,186,683	-	12,372,788
Total capital assets not being depreciated:	$ 7,572,825	$ 5,186,683	$ -	$ 12,759,508
Other capital assets:				
Equipment and vehicles	$ 1,551,938	$ 32,948	$ (74,534)	$ 1,510,352
Buildings and improvements	797,487	5,519	-	803,006
Infrastructure	12,869,012	-	(56,797)	12,812,215
Total other capital assets	$ 15,218,437	$ 38,467	$ (131,331)	$ 15,125,573
Less: Accumulated depreciation for:				
Equipment and vehicles	$ (1,145,912)	$ (95,622)	$ 72,759	$ (1,168,775)
Buildings and improvements	(513,224)	(34,942)	-	(548,166)
Infrastructure	(5,599,497)	(267,175)	46,168	(5,820,504)
Total accumulated depreciation	$ (7,258,633)	$ (397,739)	$ 118,927	$ (7,537,445)
Other capital assets, net	$ 7,959,804	$ (359,272)	$ 250,258	$ 7,588,128
Net capital assets	$ 15,532,629	$ 4,827,411	$ 250,258	$ 20,347,636

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: Capital Leases Principal	Capital Leases Interest	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Principal	Total Interest
2012	$ 38,727	$ 2,347	$ 189,069	$ 43,990	$ 227,796	$ 46,337
2013	15,004	936	192,721	37,413	207,725	38,349
2014	11,665	440	162,722	30,833	174,387	31,273
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	$ 65,396	$ 3,723	$ 1,256,015	$ 186,422	$ 1,321,410	$ 190,145

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Years	Business-Type Activities Debt					
Ending	General Obligation Bonds		Capital Leases		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 497,266	$ 267,875	$ 10,474	$ 494	$ 507,740	$ 268,369
2013	1,531,157	155,922	3,758	77	1,534,915	155,999
2014	426,391	145,460	-	-	426,391	145,460
2015	410,687	137,992	-	-	410,687	137,992
2016	390,524	130,494	-	-	390,524	130,494
2017	401,490	122,953	-	-	401,490	122,953
2018	409,488	115,382	-	-	409,488	115,382
2019	417,622	107,627	-	-	417,622	107,627
2020	286,395	102,563	-	-	286,395	102,563
2021	291,712	100,252	-	-	291,712	100,252
2022	297,177	97,880	-	-	297,177	97,880
2023	253,843	95,445	-	-	253,843	95,445
2024	213,864	92,945	-	-	213,864	92,945
2025	219,796	90,378	-	-	219,796	90,378
2026	225,893	87,744	-	-	225,893	87,744
2027	232,159	85,039	-	-	232,159	85,039
2028	238,599	82,263	-	-	238,599	82,263
2029	245,217	79,413	-	-	245,217	79,413
2030	252,019	76,487	-	-	252,019	76,487
2031	259,009	73,484	-	-	259,009	73,484
2032	266,194	70,400	-	-	266,194	70,400
2033	173,578	67,235	-	-	173,578	67,235
2034	281,166	63,986	-	-	281,166	63,986
2035	288,966	60,650	-	-	288,966	60,650
2036	296,981	57,225	-	-	296,981	57,225
2037	305,219	53,710	-	-	305,219	53,710
2038	313,686	50,101	-	-	313,686	50,101
2039	322,387	46,397	-	-	322,387	46,397
2040	331,330	42,594	-	-	331,330	42,594
2041	340,521	38,690	-	-	340,521	38,690
2042	349,967	34,682	-	-	349,967	34,682
2043	359,675	30,568	-	-	359,675	30,568
2044	369,653	26,344	-	-	369,653	26,344
2045	379,907	22,008	-	-	379,907	22,008
2046	390,446	17,558	-	-	390,446	17,558
2047	401,277	12,988	-	-	401,277	12,988
2048	209,144	8,298	-	-	209,144	8,298
2049	35,884	3,483	-	-	35,884	3,483
2050	6,073	108	-	-	6,073	108
Total	$ 12,922,362	$ 2,954,623	$ 14,232	$ 571	$ 12,936,594	$ 2,955,194

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, 2011:

	Balance July 1, 2010	Issuances/ Increases	Retirements	June 30, 2011
Governmental activities:				
General obligation bonds	$ 1,445,488	$ -	$ 189,473	$ 1,256,015
Capital lease obligations	78,211	33,750	46,565	65,396
Compensated Absences	87,590	2,225	-	89,815
Total Long-Term Liabilities	$ 1,611,289	$ 35,975	$ 236,038	$ 1,411,226
Business-type activities:				
General Obligation/Revenue Bonds	$ 7,416,397	$ 5,885,889	$ 379,924	$ 12,922,362
Capital lease obligations	25,760	-	11,528	14,232
Compensated Absences	91,990	-	4,091	87,899
Total Business-type Activities	$ 7,534,147	$ 5,885,889	$ 395,543	$ 13,024,493
Total	$ 9,145,436	$ 5,921,864	$ 631,581	$ 14,435,719

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

	Total Amount Due	Amount Due Within One Year
Governmental Activities:		
Capital Leases:		
$29,975 issued April 5, 2007, due in monthly installments of $579 beginning April 5, 2007 through January 5, 2012, for the purchase of a SunBelt Boom Lift.	$ 5,082	$ 5,082
$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.	9,150	5,392
$26,881 issued September 15, 2008, due in monthly installments of $819 beginning September 15, 2008, through September 15, 2011, for the purchase of a 2008 Dodge Charger.	814	814
$26,927 issued May 7, 2009, due in monthly installments of $831 beginning May 7, 2009, through May 7, 2012, for the purchase of a 2009 Dodge Charger.	8,034	8,034
$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.	8,566	8,566
$33,750 issued November 18, 2010, due in annual installments of $12,105 beginning November 18, 2011, through Nobember 18, 2013 for the purchase of a 2010 dodge charger.	33,750	10,839
Total capital leases	$ 65,396	$ 38,727

NOTE 9—LONG-TERM OBLIGATION: (CONTINUED)

	Total Amount Due	Amount Due Within One Year
Governmental Activities: (continued)		
General Obligation Bonds:		
Series 2004, $700,000, refinance of 1991 bonds issued October 26, 2004 payable in monthly installments of $5,094, trough October 2020, with interest at 3.75%.	$ 440,594	$ 45,377
Series 2004, $1,124,800 bonds issued October 26, 2004 payable in varying semi-annual installments, through November 2019, with variable interest rates.	666,900	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%.	148,521	60,092
Total general obligations bonds	$ 1,256,015	$ 189,069
Compensated absences	$ 89,815	$ -
Total Long-term Debt	$ 1,411,226	$ 227,796
Business type activities:		
Capital leases:		
$29,975 issued April 5, 2007, due in monthly installments of $579 beginning April 5, 2007, through January 5, 2012, for the purchase of two Art Boom Lifts.	$ 5,082	$ 5,082
$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.	9,150	5,392
Total capital leases	$ 14,232	$ 10,474

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

		Total Amount Due		Amount Due Within One Year
Business type activities: (continued)				
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%.	$	148,522	$	60,092
Series 1992 $1,116,000, issued November 6, 1992, payable in semiannual installments of $440,779, through May 2013, with interest at 3.0%.		157,180		77,420
Series 2001, $1,926,,000 issued November 2000, payable in semi-annual installments of $48,150 September 2022.		1,087,456		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.		1,088,100		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%. $8,562,649 has been drawn down as of June 30, 2011.		8,562,650		117,277
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%. $878,454 has been drawn down as of June 30, 2011.		878,454		11,376
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%.		1,000,000		-
Total general obligation bonds	$	12,922,362	$	497,266
Compensated absences	$	87,899	$	-
Total Business-type Activities	$	13,024,493	$	507,740

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:

		Governmental Activities		Business-type Activities
Asset:				
Machinery and equipment	$	167,037	$	55,250
Less: Accumulated depreciaton		(69,040)		(31,180)
Total	$	97,997	$	24,070

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Fiscal Year Ending June 30		Governmental Activities		Business-type Activities
2012	$	41,074	$	10,968
2013		15,940		3,835
2014		12,105		-
Total minimum lease payments	$	69,119	$	14,803
Less: amount representing interest		(3,723)		(571)
Present value of minimum lease payments	$	65,396	$	14,232

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 10 years of service credit or age 50 with at least five years of service credit.
- 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.

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Plan Description (continued)

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 report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2010-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 2011 was 11.65% of annual covered payroll.

Annual Pension Cost

For fiscal year 2011, the Town's annual pension cost of $292,778 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, 2009	$ 188,986	100.00%	$ -
June 30, 2010	187,571	100.00%	-
June 30, 2011	292,778	100.00%	-

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Annual Pension Cost (continued)

The FY 2011 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 payroll 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, 2010, the most recent actuarial valuation date, the Town's plan was 87.17% funded. The actuarial accrued liability for benefits was $6,661,933, and the actuarial value of assets was $5,807,097, resulting in an unfunded actuarial accrued liability (UAAL) of $854,836. The covered payroll (annual payroll of active employees covered by the plan) was $2,585,560, and ratio of the UAAL to the covered payroll was 33.06%.

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:

		Amount
Fidelity and Deposit Company - Surety		
Judson Rexall, Town Manager	$	50,000
Public Employees Blanket Bond		25,000
Untied States Fidelity and Guaranty Company - Surety		
Director of Finance		50,000

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—INTERFUND TRANSFERS:

Interfund transfers for the year ended June 30, 2011 were made up of the following:

	Transfers In	Transfers Out
General Fund	$ -	$ 86,084
Trash Fund	7,139	-
Recreation Fund	78,945	-
Total	$ 86,084	$ 86,084

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

NOTE 14—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. At June 30, 2011, $84,300 was owed to the developer.

NOTE 15—SIGNIFICANT CONTRACTS OUTSTANDING:

The Town had the following material contracts outstanding at June 30, 2011:

Project	Original Contract Amount	Amount Spent to Date	Amount of Contract Remaining at Year End
WWTP Construction and Upgrades	$ 11,596,725	$ 9,071,582	$ 2,525,143
Total	$ 11,596,725	$ 9,071,582	$ 2,525,143

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.

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REQUIRED SUPPLEMENTARY INFORMATION

Town of Strasburg, Virginia | Exhibit 10

General Fund

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

For the Year Ended June 30, 2011

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
General property taxes	$ 1,423,450	$ 1,423,450	$ 1,509,841	$ 86,391
Other local taxes	1,559,700	1,559,700	1,501,187	(58,513)
Permits, privilege fees, and regulatory licenses	16,000	16,000	13,715	(2,285)
Fines and forfeitures	50,000	50,000	32,157	(17,843)
Revenue from the use of money and property	69,000	69,000	71,389	2,389
Miscellaneous	153,600	153,600	85,346	(68,254)
Intergovernmental				
Commonwealth	707,313	707,313	752,856	45,543
Federal	-	-	66,747	66,747
Total revenues	$ 3,979,063	$ 3,979,063	$ 4,033,238	$ 54,175
EXPENDITURES				
Current:				
General government administration	$ 718,261	$ 718,261	$ 717,365	$ 896
Public safety	1,666,458	1,666,458	1,603,911	62,547
Public works	1,089,485	1,089,485	976,895	112,590
Health and welfare	-	-	7,305	(7,305)
Parks, recreation and cultural	43,000	43,000	43,115	(115)
Community development	29,500	29,500	27,500	2,000
Capital outlay:				
Administrative	22,700	22,700	17,992	4,708
Public safety	75,000	75,000	75,000	-
Public Works	11,000	11,000	5,738	5,262
Debt service:				
Principal	241,230	241,230	236,038	5,192
Interest	52,856	52,856	52,856	-
Total expenditures	$ 3,949,490	$ 3,949,490	$ 3,763,715	$ 185,775
Excess (deficiency) of revenues over (under) expenditures	$ 29,573	$ 29,573	$ 269,523	$ 239,950
OTHER FINANCING SOURCES (USES)				
Transfers out	$ (100,429)	$ (100,429)	$ (86,084)	$ 14,345
Proceeds from indebtedness	75,000	75,000	33,750	(41,250)
Total other financing sources and uses	$ (25,429)	$ (25,429)	$ (52,334)	$ (26,905)
Net change in fund balances	$ 4,144	$ 4,144	$ 217,189	$ 213,045
Fund balances - beginning	-	-	1,488,427	1,488,427
Fund balances - ending	$ 4,144	$ 4,144	$ 1,705,616	$ 1,701,472

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)
06/30/10	$ 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%
06/30/06	3,521,888	3,398,554	(123,334)	103.63%	2,018,593	-6.11%

STATISTICAL TABLES

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Health and Welfare	Community Development
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

(1) Information has only been available for 8 years.

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

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

	PROGRAM REVENUES		
Fiscal Year	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

(1) Information has only been available for 8 years.

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

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

Fiscal Year	General Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Health and Welfare	Community Development
2001-02	$ 256,345	$ 780,287	$ 830,546	$ 21,575	$ -	$ 8,676
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

(1) Includes General Fund.

Table 3

Non-departmental	Debt Service	Total
$ -	$ 318,173	$ 2,215,602
-	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

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, & Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Misc-ellaneous
2001-02	$ 861,120	$ 708,958	$ 2,455	$ 47,235	$ 10,791	$ 39,737
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	32,157	71,389	85,346

(1) Includes General Fund.

Table 4

Inter-governmental	Total
$ 539,275	$ 2,209,571
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

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

Fiscal Year	Total Tax Levy (1,2,3)	Current Tax Collections (1,3)	Percent of Levy Collected	Delinquent Tax Collections (1) (2)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2001-02	$ 979,291	$ 956,237	97.65%	$ 37,045	$ 993,282	101.43%
2002-03	1,000,962	985,595	98.46%	36,330	1,021,925	102.09%
2003-04	1,122,258	1,085,334	96.71%	13,322	1,098,656	97.90%
2004-05 (3)	1,227,258	1,142,620	93.10%	10,098	1,152,718	93.93%
2005-06 (3)	1,460,119	1,409,165	96.51%	6,926	1,416,091	96.98%
2006-07 (3)	1,610,384	1,566,569	97.28%	8,486	1,575,055	97.81%
2007-08 (3)	1,754,568	1,592,494	90.76%	11,914	1,604,408	91.44%
2008-09 (3)	1,570,074	1,492,353	95.05%	63,311	1,555,664	99.08%
2009-10 (3)	1,520,815	1,433,595	94.26%	88,877	1,522,472	100.11%
2010-11 (3)	1,597,836	1,517,593	94.98%	90,515	1,608,108	100.64%

(1) Exclusive of penalties.
(2) Does not include land redemptions.
(3) Includes Commonwealth of Virginia PPTRA Reimbursement

Table 5

Outstanding Delinquent Taxes	Percent of Total Tax Collections to Tax Levy
$ 62,448	7.00%
62,448	6.00%
63,344	8.00%
119,409	9.73%
144,369	9.89%
125,554	7.80%
337,276	19.22%
182,278	11.61%
188,670	12.41%
189,336	11.85%

Town of Strasburg, Virginia **Table 6**
Assessed Value of Taxable Property
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation (1) Real Estate	Public Service Corporation (1) Personal Property	Total	Assessed vs Fair Market Value
2001-02	$ 205,372	$ 24,765	$ 29,562	$ 13,696	$ 4	$ 273,399	100.00%
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%

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

Fiscal Year	Real Estate	Personal Property	Machninery & Tools
2001-02	0.22	1.11	0.86
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

(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.

Taxpayer	Type of Business	2011 Assessed Value	Percentage of Total Assessed Value
King Plumbing	Rental Property&Recreation Ctr.	$11,555,300	17%
294 Front Royal LLC	Manufacturing	$11,454,700	17%
IAC Corp	Manufacturing	$8,763,800	13%
Homewood Retirement	Rental & Shopping	$6,311,400	9%
Toothman Investments	Real Estate /Rental Property	$6,253,500	9%
Massanutten Elderly	Rental Property	$5,037,500	8%
Greenfield Ass. Living/Reflections	Residential	$4,898,800	7%
Sunlight Properties	Real Estate/ Rental Property	$4,670,500	7%
SFC Properties	Rental Property	$4,055,700	6%
Frank Yeakle III	Rental Property	$3,743,500	6%
	Total 2011 Assesment	$ $66,744,700	

Town of Strasburg, Virginia
Computation of Legal Debt Margin
For the Fiscal Year Ended June 30, 2011
(in thousands)

Table 9

Total assessed value of taxed real property			$	550,613
Debt limit-10 percent of assessed value			$	55,061
Amount of debt applicable to limit				
Gross debt	$	14,178		
Less: Water and sewer revenue bonds		(12,922)		
			$	1,256
Legal debt margin			$	53,805

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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, each major fund, and the aggregate remaining fund information of the Town of Strasburg, Virginia as of and for the year ended June 30, 2011, which collectively comprise Town of Strasburg, Virginia's basic financial statements and have issued our report thereon dated October 21, 2011. 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:
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 21, 2011.

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

Verona, Virginia
October 21, 2011

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, 2011. 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, 2011.

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

Verona, Virginia
October 21, 2011

Town of Strasburg, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Granting Agency/Pass-through Agency/Program	Federal Catalog Number	Pass-through Entity Identifying Number		Total Federal Expenditures
United States Department of Agriculture:				
Direct Payments:				
Community Facilities Grant	10.766	n/a	$	75,000
Pass Through Payments:				
State Department of Environmental Quality:				
Water and Waste Disposal Systems for Rural Communities	10.760	n/a	$	4,885,887
			$	4,960,887
United States Department of Transportation, Federal Highway Administration:				
Pass Through Payments:				
State Department of Transportation:				
State and Community Highway Safety Funds	20.600	n/a	$	6,476
Highway Planning and Construction	20.205	n/a		19,022
			$	25,498
Total Federal Assistance			$	4,986,385

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

Primary government:		
Governmental funds	$	100,498
Proprietary funds		4,885,887
Total primary government	$	4,986,385

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF JUNE 30, 2011

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, 2011. 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 in 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 $4,923,387.

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, 2011

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:

CFDA Numbers	*Name of Federal Program or Cluster*
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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