

TOWN OF STRASBURG, VIRGINIA



FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOWN OF STRASBURG, VIRGINIA

**Annual Financial Report
For the Fiscal Year Ended June 30, 2015**

TOWN OF STRASBURG, VIRGINIA

Strasburg, Virginia

OFFICIALS

Timothy Taylor, Mayor
Ryan Spitzer, Town Manager
Dottie Mullins, Director of Finance/Treasurer

TOWN COUNCIL

Robert B. Baker
Seth Newman
Richard A. Redmon
Jocelyn Vena

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

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

**To the Honorable Members of the Town Council
Town of Strasburg, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the Town adopted new accounting guidance, *GASB Statement Nos. 68, Accounting and Financial reporting for Pensions-an amendment of GASB Statement No. 27* and *71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No.68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 4-14, 69, and 70-73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Strasburg, Virginia's basic financial statements. The statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards 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 required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Strasburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
November 25, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers an overview and analysis of the financial activities of the Town of Strasburg for the fiscal year ended June 30, 2015. 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, 2015 by \$28,304,151 which equals the total net position of the Town. Of this amount, \$7,606,354 is unrestricted and may be used to meet the Town's future obligations. Of the \$7,606,354 unrestricted net position, approximately \$1,878,675 is related to governmental activities and is undesignated and available for future General Fund expenditures. The \$5,727,679 remaining balance of unrestricted net position is related to business-type activities, which includes the Town's enterprise fund.

The Town's total long-term debt increased by \$4,132,404 from \$17,798,754 as of June 30, 2014 to \$21,931,158 as of June 30, 2015. The increase was mainly due to bonds for the upgrade to the waste water treatment facility and construction of a new public works facility.

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 \$422,314 for the fiscal year; with an ending fund equity balance of \$2.6 million of that amount \$70,166 is restricted for proffers, \$34,558 for capital lease proceeds, \$28,785 for asset forfeitures and \$642,634 is unspent bond proceeds for the new DPW facility.

The Town's proprietary funds reported a change in the net position of \$3.77 million mainly due to construction projects at the waste water treatment plant and the construction of a new public works facility. These funds will be used to offset expenses for future capital 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 position and how they have changed during the fiscal year.

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

Proprietary Funds

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

| Summary of Statement of Net Position as of June 30, 2015 (in millions) | | | | | | | |
|---|--------------------------------|-----------------|---------------------------------|------------------|------------------|------------------|--|
| | Governmental Activities | | Business-Type Activities | | Total | | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | |
| Current and other assets | \$ 4,254 | \$ 4,162 | \$ 10,322 | \$ 8,675 | \$ 14,576 | \$ 12,837 | |
| Capital assets | 6,523 | 5,696 | 32,160 | 25,317 | 38,683 | 31,013 | |
| Net pension asset | 185 | - | 130 | - | 315 | - | |
| Total Assets | \$ 10,962 | 9,858 | 42,612 | 33,992 | \$ 53,574 | \$ 43,850 | |
| Long-term debt outstanding | \$ 1,286 | \$ 1,468 | \$ 19,666 | \$ 1,593 | \$ 20,952 | \$ 3,061 | |
| Other liabilities | 1,023 | 1,940 | 2,200 | 1,387 | 3,223 | 3,327 | |
| Total Liabilities | \$ 2,309 | \$ 3,408 | \$ 21,866 | \$ 2,980 | \$ 24,175 | \$ 6,388 | |
| Net Position | | | | | | | |
| Net investment in capital assets | \$ 5,738 | \$ 4,856 | \$ 14,889 | \$ 9,274 | \$ 20,627 | \$ 14,130 | |
| Restricted for other purposes | 70 | 69 | - | - | 70 | - | |
| Unrestricted | 1,879 | 1,525 | 5,728 | 7,637 | 7,607 | 9,162 | |
| Total net position | \$ 7,687 | \$ 6,450 | \$ 20,617 | \$ 16,911 | \$ 28,304 | \$ 23,361 | |

The Town's combined net position increased from \$23 million at June 30, 2014 to \$28 million at June 30, 2015 primarily due to an increase in capital assets in business type activities. The majority (75 percent) of the Town's net position 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 24 percent of net position in governmental activities unrestricted and available for providing services to the citizens of the Town of Strasburg.

The net position of the Town's business-type activities are \$21 million, an increase of about \$3.7 million from June 30, 2014. The majority (72 percent) of the net position in the business-type activities is invested in capital assets. The Town uses the unrestricted net position to upgrade water and sewer lines, maintain the water treatment plant and upgrade the wastewater treatment plant.

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 | |
|--|----------------------------|-----------------------|-----------------------------|----------------------|-----------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| PRIMARY GOVERNMENT: | | | | | | |
| Governmental activities: | | | | | | |
| General government | | | | | | |
| administration | \$ (133,485) | \$ 525,151 | \$ - | \$ - | \$ (133,485) | \$ 525,151 |
| Public safety | (1,651,367) | (1,629,082) | - | - | (1,651,367) | (1,629,082) |
| Public works | (61,242) | (637,436) | - | - | (61,242) | (637,436) |
| Health and welfare | (10,265) | (9,661) | - | - | (10,265) | (9,661) |
| Community development | (54,697) | (52,258) | - | - | (54,697) | (52,258) |
| Parks, recreation | | | | | | |
| and cultural | (155,196) | (154,200) | - | - | (155,196) | (154,200) |
| Interest on long-term debt | (68,012) | (43,664) | - | - | (68,012) | (43,664) |
| Total government activities | <u>\$ (2,134,264)</u> | <u>\$ (2,001,150)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,134,264)</u> | <u>\$ (2,001,150)</u> |
| Business-type activities: | | | | | | |
| Water Fund | \$ - | \$ - | \$ 771,851 | \$ 1,787,654 | \$ 771,851 | \$ 1,787,654 |
| Sewer Fund | - | - | 2,967,122 | 870,144 | 2,967,122 | 870,144 |
| Trash Fund | - | - | (3,402) | (21,678) | (3,402) | (21,678) |
| Total business-type activities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,735,571</u> | <u>\$ 2,636,120</u> | <u>\$ 3,735,571</u> | <u>\$ 2,636,120</u> |
| Total primary government | <u>\$ (2,134,264)</u> | <u>\$ (2,001,150)</u> | <u>\$ 3,735,571</u> | <u>\$ 2,636,120</u> | <u>\$ 1,601,307</u> | <u>\$ 634,970</u> |
| General revenues: | | | | | | |
| General property taxes | \$ 1,653,993 | \$ 1,551,809 | \$ - | \$ - | \$ 1,653,993 | \$ 1,551,809 |
| Local sales tax | 342,601 | 336,230 | - | - | 342,601 | 336,230 |
| Franchise taxes | 149,687 | 120,473 | - | - | 149,687 | 120,473 |
| Business licenses | 112,537 | 108,961 | - | - | 112,537 | 108,961 |
| Meals tax | 583,465 | 553,157 | - | - | 583,465 | 553,157 |
| Utility tax | 72,204 | 62,063 | - | - | 72,204 | 62,063 |
| Motor vehicle licenses | 135,976 | 132,468 | - | - | 135,976 | 132,468 |
| Other taxes | 352,562 | 351,910 | - | - | 352,562 | 351,910 |
| Grants and contributions not restricted to specific programs | 140,921 | 105,884 | - | - | 140,921 | 105,884 |
| Revenue from the use of money and property | 59,172 | 65,900 | 23,968 | 36,229 | 83,140 | 102,129 |
| Loss on disposal of assets | - | - | - | - | - | - |
| Insurance proceeds | - | - | - | - | - | - |
| Miscellaneous | 70,403 | 57,458 | 13,829 | 48,846 | 84,232 | 106,304 |
| Transfers | - | - | - | - | - | - |
| Total general revenues | <u>\$ 3,673,521</u> | <u>\$ 3,446,313</u> | <u>\$ 37,797</u> | <u>\$ 85,075</u> | <u>\$ 3,711,318</u> | <u>\$ 3,531,388</u> |
| Change in net position | <u>\$ 1,539,257</u> | <u>\$ 1,445,163</u> | <u>\$ 3,773,368</u> | <u>\$ 2,721,195</u> | <u>\$ 5,312,625</u> | <u>\$ 4,166,358</u> |
| Net position - beginning, as restated | 6,147,733 | 5,004,655 | 16,843,793 | 14,189,899 | 22,991,526 | 19,194,554 |
| Net position - ending | <u>\$ 7,686,990</u> | <u>\$ 6,449,818</u> | <u>\$ 20,617,161</u> | <u>\$ 16,911,094</u> | <u>\$ 28,304,151</u> | <u>\$ 23,360,912</u> |

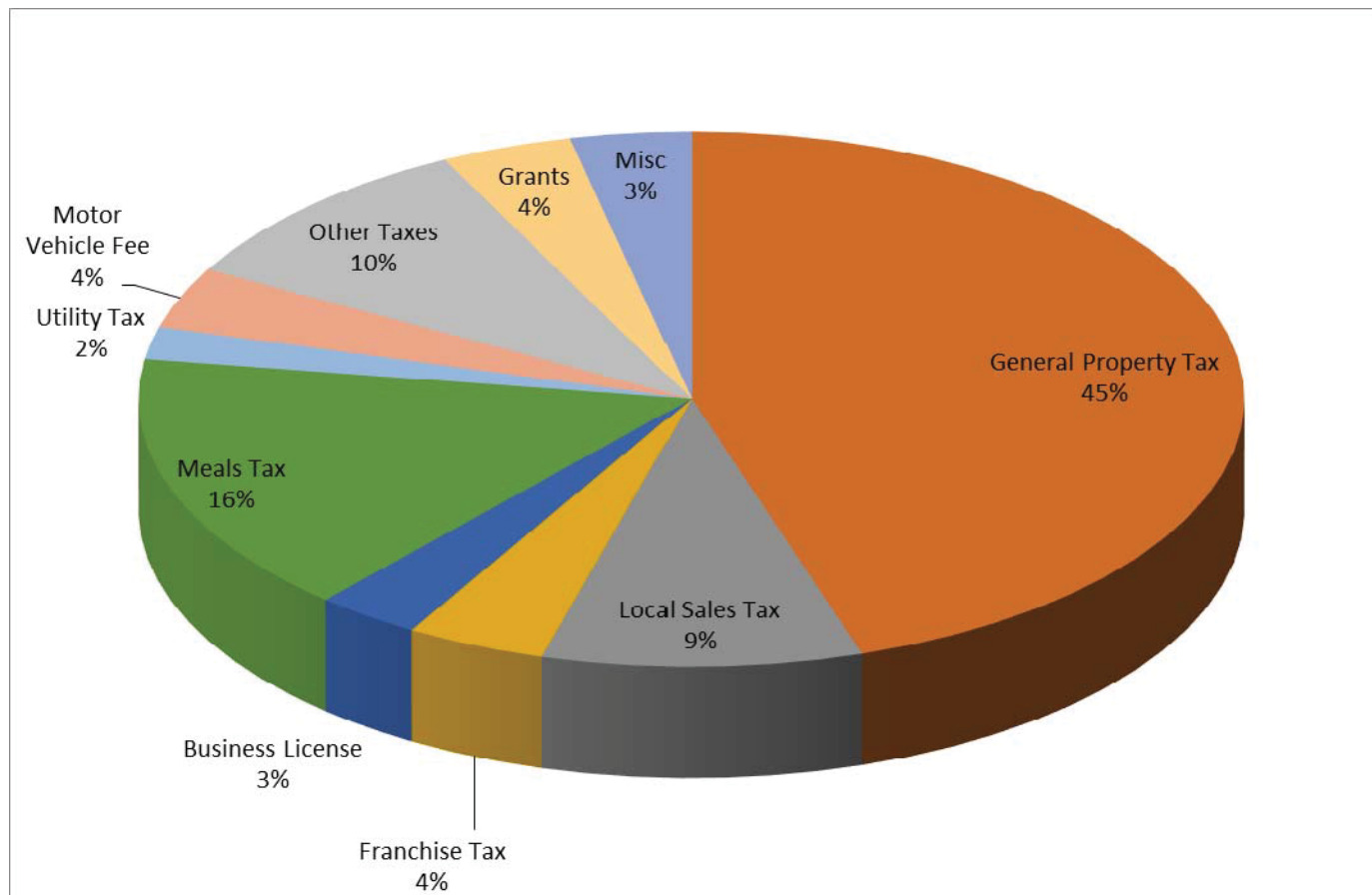
Governmental Activities

Revenues

Revenues from governmental activities totaled \$3.7 million, general property taxes and other taxes are the largest component of revenue (93 percent). General property tax revenues were \$1.6 million an increase of 6%.

Other local taxes and fees including revenue from local sales, franchise tax, business licenses, and meals taxes were \$ 1.7 million, an increase of 5 percent from June 30, 2014 the increase was mainly due to a slight increase in each category.

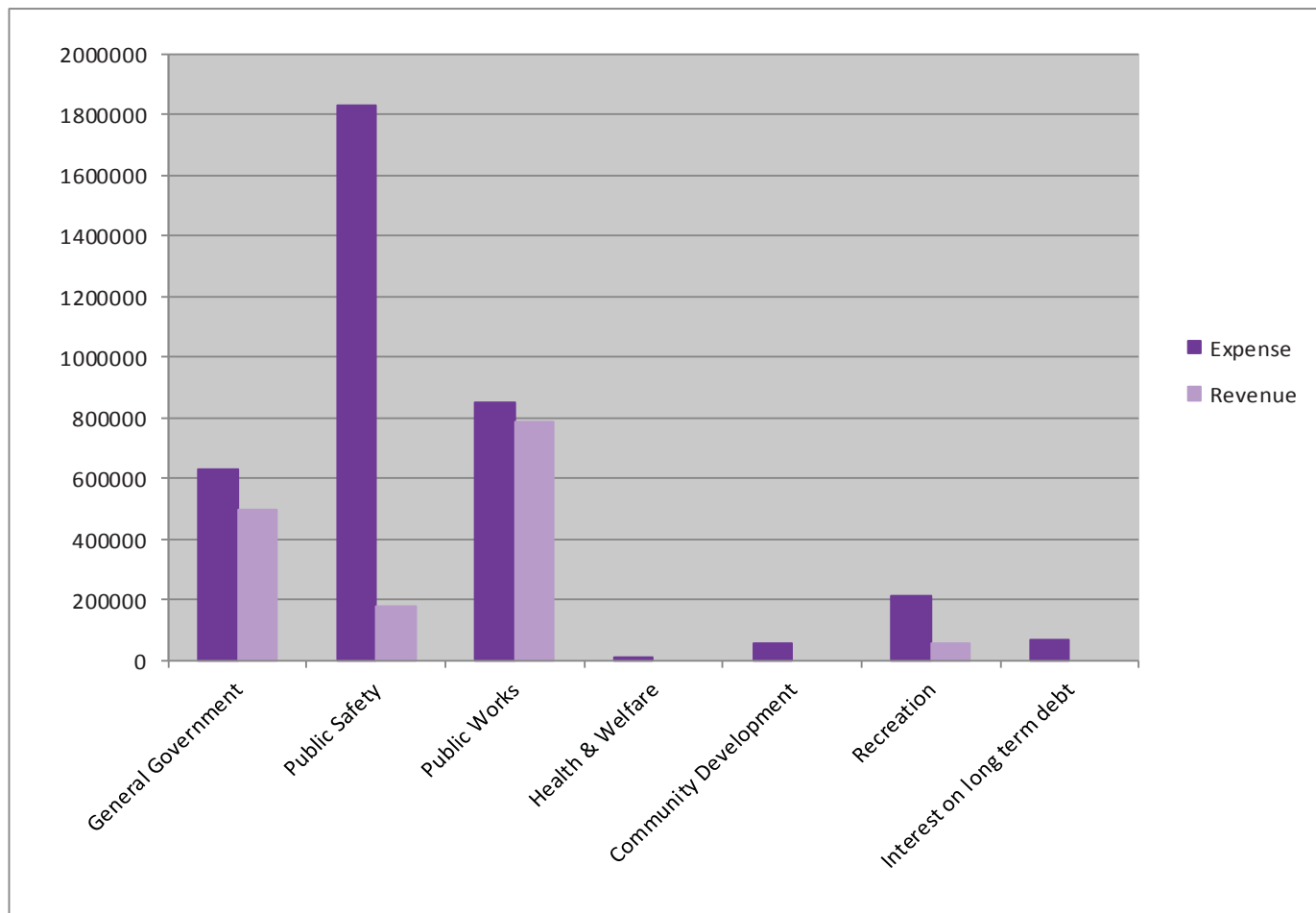
Revenue by Source-Governmental Activities



Expenses

Expenses for governmental activities totaled \$3.6 million, which was a decrease of \$196,000 over the previous year. This decrease is due to a decrease in expenditures due to the completion of the street scape Phase I & II, Phase III will be started in 2016. The Public Safety and Public Works departments account for 73 percent of the total expenses for governmental activities.

Program Expenses and Program Revenues – Governmental Activities



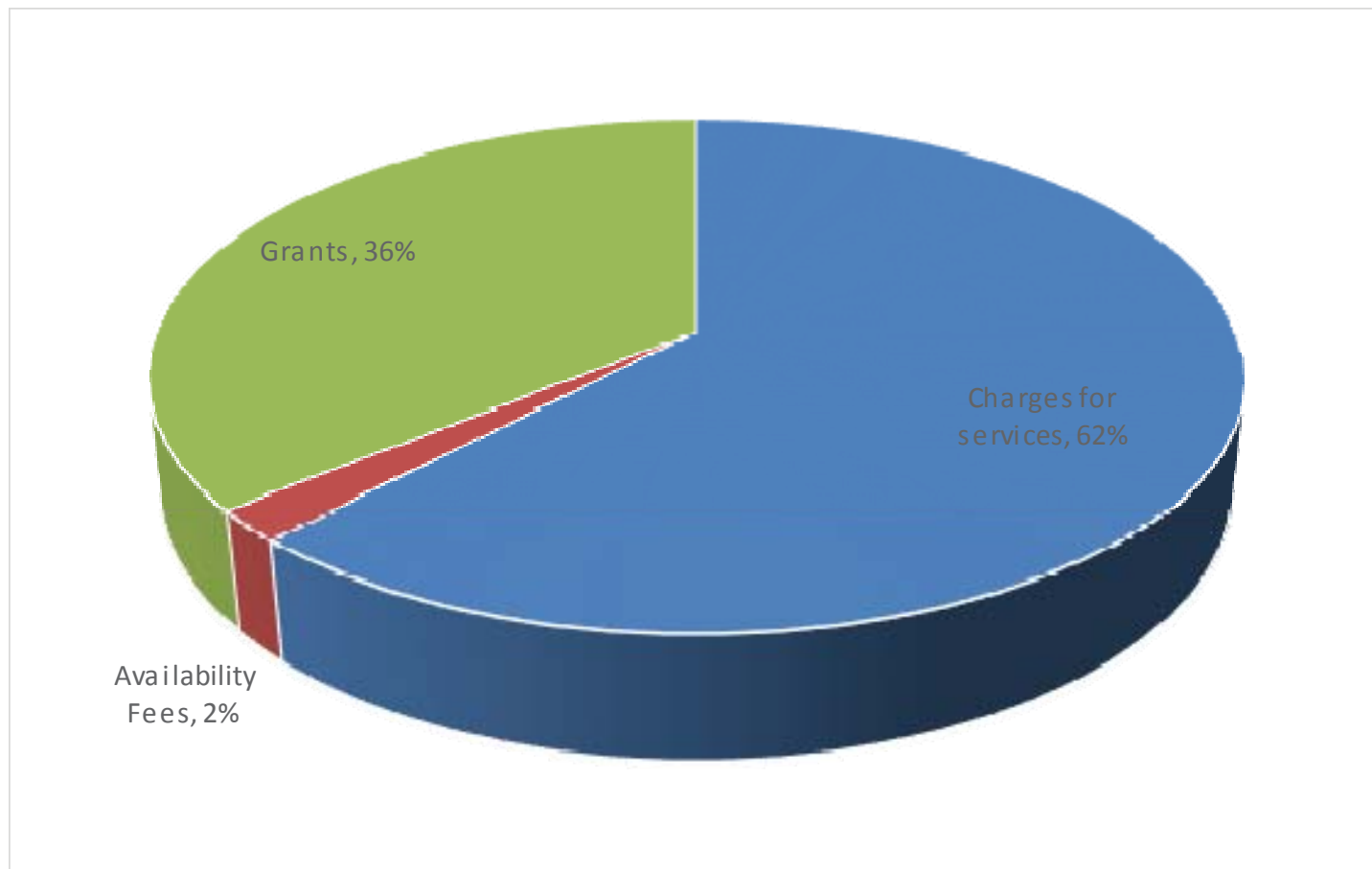
Business-type Activities

The Town's business-type activities are comprised of enterprise funds for water, sewer, and trash. Net position of these business-type activities increased by \$3.7 million, this is mainly due to construction at the waste water treatment plant and grant funds received from DEQ.

Revenues

Revenue for all business-type activities totaled \$ 7.9 million, which is a 20 percent increase over 2014. The increase is due to the construction loans for the upgrade to the waste water treatment plant and the public works facility. Charges for services decreased as a result of receiving more grant funds this year from DEQ for the upgrade to the waste water treatment plant.

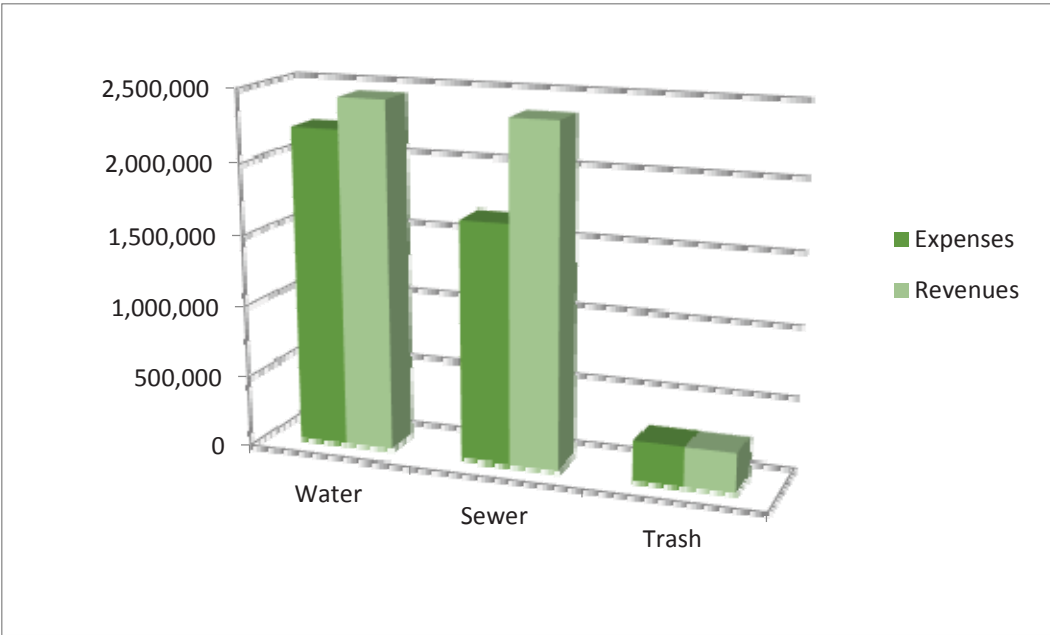
Revenues by Source - Business-type Activities



Expenses:

Expenses totaled \$4.1 million, which was an increase of \$236,000 over 2014. The increase was mainly due to the cost of chemicals and materials increasing.

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

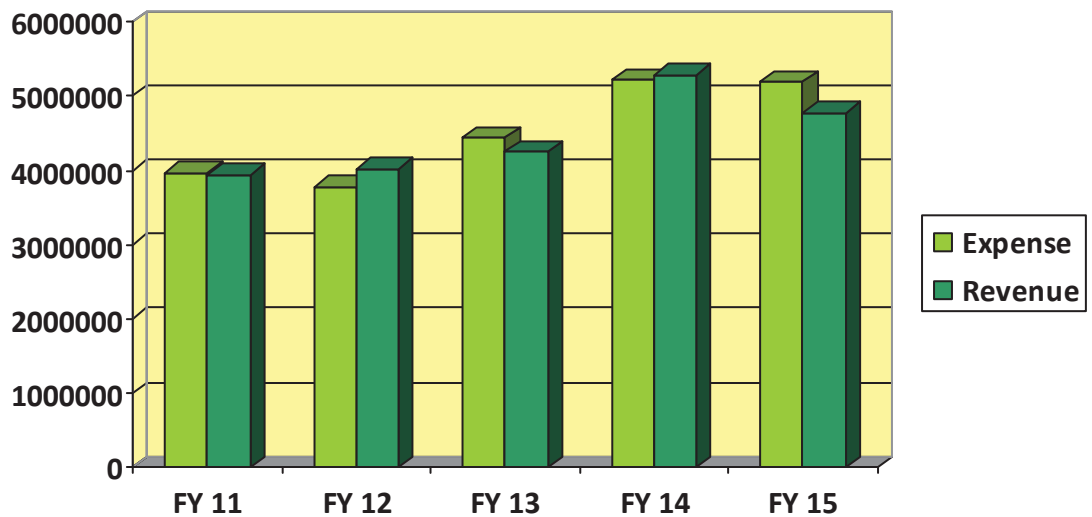
Governmental Funds

Governmental Funds include the General Fund of which the unassigned 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 2015, the unassigned fund balance was \$1.8 million which represents 38 percent 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 revenue exceeded expenditures by \$422,000 in the General Fund, 2015 actual revenues were \$84,000 more than fiscal year 2014 revenues. The main reason for the increase is from the general property tax increasing 8% due to the annexation of the industrial park.

Actual expenditures were approximately \$445,000 less than 2014 expenditures. The decrease was due primarily to less being spent on the street scape project in the 2015 budget.

Proprietary Funds

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

Water Fund

The Water Fund ended 2015 with unrestricted net position of \$3,224,690 which can be used for future fund expenses.

Sewer Fund

The Sewer Fund ended 2015 with unrestricted net position of \$2,526,421 which can be used for future fund expenses.

Trash Fund

Revenue in the Trash Fund in 2015 was supplemented from the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

2015 primary government investment in capital assets for its governmental and business-type activities was \$38.6 million, net of depreciation (see chart below).

Capital Assets (net of depreciation in millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---------------------------------|------------------------------------|-----------------|-------------------------------------|------------------|-------------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land and improvements | \$ 639 | \$ 639 | \$ 405 | \$ 405 | \$ 1,044 | \$ 1,044 |
| Buildings and improvements | 861 | 883 | 60 | 68 | 921 | 951 |
| Infrastructure | 4,326 | 2,281 | 20,889 | 21,106 | 25,215 | 23,387 |
| Furniture, equipment & vehicles | 554 | 591 | 402 | 311 | 956 | 902 |
| Construction in Progress | 142 | 1,302 | 10,403 | 3,427 | 10,545 | 4,729 |
| Total | <u>\$ 6,522</u> | <u>\$ 5,696</u> | <u>\$ 32,159</u> | <u>\$ 25,317</u> | <u>\$ 38,681</u> | <u>\$ 31,013</u> |

Total Capital Assets at June 30, 2015 were \$39 million compared to \$31 million at June 30, 2014, resulting in an increase of approximately \$8 million in the total Capital Assets. The majority of this increase is due to the construction of the upgrade to the waste water treatment plant and public works facility.

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 2015 was \$21.9 million, with \$20 million in business-type activities, resulting in net debt of \$1.5 million in governmental activities. Capital leases and vacation pay are included in outstanding debt.

Town of Strasburg Outstanding Debt
General Obligation and Revenue Bonds
June 30, 2015
(In millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------|------------------------------------|-----------------|-------------------------------------|------------------|-------------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| General Obligation Bonds | \$ 1,217 | \$ 1,375 | \$ 19,914 | \$ 15,797 | \$ 21,131 | \$ 17,172 |
| Unamortized bond premium | 76 | 51 | 240 | 205 | | |
| Capital Lease | 171 | 114 | 102 | 41 | 273 | 155 |
| Compensated Absences | 111 | 114 | 99 | 101 | 210 | 215 |
| Total | \$ 1,575 | \$ 1,654 | \$ 20,355 | \$ 16,144 | \$ 21,930 | \$ 17,798 |

Additional information on the Town's long-term obligations can be found in the notes to the financial statements, Note 9-Long Term Obligations.

ECONOMIC FACTORS

Growth in the Town is expected to remain slow, which will continue to cause general property and other local taxes to have little growth. Earnings on idle cash continue to remain low.

The Town of Strasburg has started construction on an upgrade to the wastewater treatment plant and started construction on a new public works facility.

CONTACT INFORMATION

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Town of Strasburg, Virginia
Statement of Net Position
June 30, 2015

Exhibit 1

| | Primary Government | | |
|---|--------------------|---------------|---------------|
| | Governmental | Business-type | Total |
| | Activities | Activities | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,377,343 | \$ 5,865,206 | \$ 8,242,549 |
| Receivables | | | |
| Taxes, net of allowance of \$41,427 | 872,312 | - | 872,312 |
| Accounts, net of allowance of \$51,045 | 78,297 | 651,627 | 729,924 |
| Due from other governmental units | 95,754 | 542,476 | 638,230 |
| Internal balances | 66,916 | (66,916) | - |
| Inventory | 15,848 | 344,300 | 360,148 |
| Restricted assets: | | | |
| Cash and cash equivalents | 747,358 | 2,985,289 | 3,732,647 |
| Total current assets | \$ 4,253,828 | \$ 10,321,982 | \$ 14,575,810 |
| Other assets: | | | |
| Net pension asset | \$ 185,781 | \$ 130,014 | \$ 315,795 |
| Capital assets: | | | |
| Nondepreciable: | | | |
| Land | \$ 639,469 | \$ 404,837 | \$ 1,044,306 |
| Construction in progress | 141,889 | 10,402,745 | 10,544,634 |
| Depreciable, net of accumulated depreciation: | | | |
| Furniture, equipment, and vehicles | 554,134 | 402,300 | 956,434 |
| Buildings and improvements | 860,830 | 60,400 | 921,230 |
| Infrastructure | 4,326,319 | 20,889,698 | 25,216,017 |
| Total capital assets, net | \$ 6,522,641 | \$ 32,159,980 | \$ 38,682,621 |
| Total assets | \$ 10,962,250 | \$ 42,611,976 | \$ 53,574,226 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension contributions subsequent to measurement date | \$ 118,484 | \$ 83,019 | \$ 201,503 |
| Total deferred outflows of resources | \$ 118,484 | \$ 83,019 | \$ 201,503 |
| LIABILITIES | | | |
| Accounts payable | \$ 109,721 | \$ 924,590 | \$ 1,034,311 |
| Contracts and retainage payable | - | 381,842 | 381,842 |
| Other liabilities | 78,763 | 51,627 | 130,390 |
| Customer deposits | - | 102,702 | 102,702 |
| Accrued interest payable | 9,706 | 50,840 | 60,546 |
| Unearned revenue-other | 534,314 | - | 534,314 |
| Noncurrent liabilities: | | | |
| Due within one year | 290,317 | 616,561 | 906,878 |
| Due in more than one year | 1,285,745 | 19,738,535 | 21,024,280 |
| Total liabilities | \$ 2,308,566 | \$ 21,866,697 | \$ 24,175,263 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred revenue-property taxes | \$ 783,474 | \$ - | \$ 783,474 |
| Items related to measurement of net pension liability | 301,704 | 211,137 | 512,841 |
| Total deferred inflows of resources | \$ 1,085,178 | \$ 211,137 | \$ 1,296,315 |
| NET POSITION | | | |
| Net investment in capital assets | \$ 5,738,149 | \$ 14,889,482 | \$ 20,627,631 |
| Restricted for proffers | 70,166 | - | 70,166 |
| Unrestricted | 1,878,675 | 5,727,679 | 7,606,354 |
| Total net position | \$ 7,686,990 | \$ 20,617,161 | \$ 28,304,151 |

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, 2015

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--|---------------------|-------------------------|----------------------|----------------------|
| | | <u>Charges for</u> | <u>Operating</u> | <u>Capital</u> |
| | | <u>Services</u> | <u>Grants and</u> | <u>Grants and</u> |
| | | | <u>Contributions</u> | <u>Contributions</u> |
| PRIMARY GOVERNMENT: | | | | |
| Governmental activities: | | | | |
| General government administration | \$ 627,706 | \$ 50,025 | \$ - | \$ 444,196 |
| Public safety | 1,829,034 | - | 177,667 | - |
| Public works | 848,525 | - | 389,713 | 397,570 |
| Health and welfare | 10,265 | - | - | - |
| Community development | 54,697 | - | - | - |
| Parks, recreation and cultural | 209,150 | 53,954 | - | - |
| Interest on long-term debt | 68,012 | - | - | - |
| Total governmental activities | <u>\$ 3,647,389</u> | <u>\$ 103,979</u> | <u>\$ 567,380</u> | <u>\$ 841,766</u> |
| Business-type activities: | | | | |
| Water Fund | \$ 2,223,318 | \$ 2,436,912 | \$ - | \$ 558,257 |
| Sewer Fund | 1,673,529 | 2,374,755 | - | 2,265,896 |
| Trash Fund | 278,159 | 274,757 | - | - |
| Total business-type activities | <u>\$ 4,175,006</u> | <u>\$ 5,086,424</u> | <u>\$ -</u> | <u>\$ 2,824,153</u> |
| Total primary government | <u>\$ 7,822,395</u> | <u>\$ 5,190,403</u> | <u>\$ 567,380</u> | <u>\$ 3,665,919</u> |
| General revenues: | | | | |
| General property taxes | | | | |
| Other local taxes: | | | | |
| Local sales tax | | | | |
| Franchise taxes | | | | |
| Business licenses | | | | |
| Meals tax | | | | |
| Utility tax | | | | |
| Motor vehicle licenses | | | | |
| Other taxes | | | | |
| Grants and contributions not restricted to specific programs | | | | |
| Revenue from the use of money and property | | | | |
| Miscellaneous | | | | |
| Total general revenues | | | | |
| Change in net position | | | | |
| Net position - beginning, as restated | | | | |
| Net position - ending | | | | |

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

Exhibit 2

| Net (Expense) Revenue and Changes in Net Position | | |
|--|-------------------------------------|-----------------------|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| \$ (133,485) | \$ - | \$ (133,485) |
| (1,651,367) | - | (1,651,367) |
| (61,242) | - | (61,242) |
| (10,265) | - | (10,265) |
| (54,697) | - | (54,697) |
| (155,196) | - | (155,196) |
| (68,012) | - | (68,012) |
| <u>\$ (2,134,264)</u> | <u>\$ -</u> | <u>\$ (2,134,264)</u> |
| | | |
| \$ - | \$ 771,851 | \$ 771,851 |
| - | 2,967,122 | 2,967,122 |
| - | (3,402) | (3,402) |
| <u>\$ -</u> | <u>\$ 3,735,571</u> | <u>\$ 3,735,571</u> |
| <u>\$ (2,134,264)</u> | <u>\$ 3,735,571</u> | <u>\$ 1,601,307</u> |
| | | |
| \$ 1,653,993 | \$ - | \$ 1,653,993 |
| 342,601 | - | 342,601 |
| 149,687 | - | 149,687 |
| 112,537 | - | 112,537 |
| 583,465 | - | 583,465 |
| 72,204 | - | 72,204 |
| 135,976 | - | 135,976 |
| 352,562 | - | 352,562 |
| 140,921 | - | 140,921 |
| 59,172 | 23,968 | 83,140 |
| 70,403 | 13,829 | 84,232 |
| <u>\$ 3,673,521</u> | <u>\$ 37,797</u> | <u>\$ 3,711,318</u> |
| <u>\$ 1,539,257</u> | <u>\$ 3,773,368</u> | <u>\$ 5,312,625</u> |
| <u>6,147,733</u> | <u>16,843,793</u> | <u>22,991,526</u> |
| <u>\$ 7,686,990</u> | <u>\$ 20,617,161</u> | <u>\$ 28,304,151</u> |

FUND FINANCIAL STATEMENTS

Town of Strasburg, Virginia
Balance Sheet
Governmental Fund
June 30, 2015

Exhibit 3

| | <u>General</u> |
|---|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 2,377,343 |
| Receivables: | |
| Taxes, net of allowance of \$41,427 | 872,312 |
| Accounts | 78,297 |
| Due from other governmental units | 95,754 |
| Due from other funds | 66,916 |
| Inventory | 15,848 |
| Total current assets | \$ <u>3,506,470</u> |
| Restricted assets: | |
| Cash and cash equivalents | \$ <u>747,358</u> |
| Total assets | \$ <u><u>4,253,828</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 109,721 |
| Other liabilities | 78,763 |
| Unearned revenue - other | 534,314 |
| Total liabilities | \$ <u>722,798</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable revenue - property taxes | \$ 891,857 |
| Total deferred inflows of resources | \$ <u>891,857</u> |
| FUND BALANCES | |
| Nonspendable - inventory | \$ 15,848 |
| Restricted - capital lease proceeds | 34,558 |
| Restricted - proffers | 70,166 |
| Restricted - assets forfeitures | 28,785 |
| Restricted - unspent bond proceeds | 642,634 |
| Committed - construction | 70,672 |
| Unassigned | 1,776,510 |
| Total fund balances | \$ <u>2,639,173</u> |
| Total liabilities, deferred inflows of resources, and fund balances | \$ <u><u>4,253,828</u></u> |

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

Town of Strasburg, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2015

Exhibit 4

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

| | | |
|--|----|-------------------------|
| Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds | \$ | 2,639,173 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 6,522,641 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds. | | (193,321) |
| The net pension asset is not an available resource and, therefore is not reported in the funds. | | 185,781 |
| Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds. | | 118,484 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | | <u>(1,585,768)</u> |
| Net position of governmental activities | \$ | <u><u>7,686,990</u></u> |

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

Town of Strasburg, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2015

Exhibit 5

| | <u>General</u> |
|---|----------------------------|
| REVENUES | |
| General property taxes | \$ 1,660,060 |
| Other local taxes | 1,749,032 |
| Permits, privilege fees, and regulatory licenses | 8,504 |
| Fines and forfeitures | 41,521 |
| Miscellaneous | 70,403 |
| Revenue from the use of money and property | 59,172 |
| Charges for services | 53,954 |
| Intergovernmental: | |
| Commonwealth | 663,285 |
| Federal | 886,782 |
| Total revenues | <u>\$ 5,192,713</u> |
| EXPENDITURES | |
| Current: | |
| General government administration | \$ 603,203 |
| Public safety | 1,753,368 |
| Public works | 1,225,170 |
| Health and welfare | 10,265 |
| Parks, recreation, and cultural | 180,424 |
| Community development | 54,697 |
| Capital projects: | |
| Administrative | 584,057 |
| Public safety | 78,339 |
| Public works | 8,522 |
| Parks, recreation, and cultural | 9,357 |
| Debt service: | |
| Principal | 198,051 |
| Interest | 64,946 |
| Total expenditures | <u>\$ 4,770,399</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 422,314</u> |
| OTHER FINANCING SOURCES (USES) | |
| Refunding bonds issued | \$ 305,900 |
| Issuance of capital leases | 112,898 |
| Premium on refunding bonds issued | 27,723 |
| Payment to refunded bond escrow agent | <u>(321,100)</u> |
| Total other financing sources (uses) | <u>\$ 125,421</u> |
| Net change in fund balance | \$ 547,735 |
| Fund balance, beginning of year as restated | 2,091,438 |
| Fund balance, end of year | <u><u>\$ 2,639,173</u></u> |

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

Town of Strasburg, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Fund
to the Statement of Activities
For the Year Ended June 30, 2015

Exhibit 6

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

| | |
|--|----------------------------|
| Net change in fund balances - total governmental funds | \$ 547,735 |
| 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. | 826,148 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in unavailable property taxes is reported as revenues in the governmental funds. | (6,067) |
| 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 position. Also, governmental funds report the effect of 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. | 75,066 |
| 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. | <u>96,375</u> |
| Change in net position of governmental activities | \$ <u><u>1,539,257</u></u> |

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

Town of Strasburg, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2015

Exhibit 7

| | Water Fund | Sewer Fund | Trash Fund | Total |
|--|-----------------------|-----------------------|-----------------------|----------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 3,071,001 | \$ 2,794,205 | \$ - | \$ 5,865,206 |
| Receivables: | | | | |
| Accounts, net of allowance for uncollectible accounts \$51,045 | 279,785 | 327,627 | 44,215 | 651,627 |
| Due from other governmental units | - | 542,476 | - | 542,476 |
| Inventory | 188,164 | 156,136 | - | 344,300 |
| Total current assets | <u>\$ 3,538,950</u> | <u>\$ 3,820,444</u> | <u>\$ 44,215</u> | <u>\$ 7,403,609</u> |
| Restricted assets: | | | | |
| Cash and cash equivalents | \$ 1,545,132 | \$ 1,440,157 | \$ - | \$ 2,985,289 |
| Total restricted assets | <u>\$ 1,545,132</u> | <u>\$ 1,440,157</u> | <u>\$ -</u> | <u>\$ 2,985,289</u> |
| Other assets: | | | | |
| Net pension asset | \$ 69,764 | \$ 60,250 | \$ - | \$ 130,014 |
| Capital assets, net of accumulated depreciation | \$ 16,783,919 | \$ 15,376,061 | \$ - | \$ 32,159,980 |
| Total assets | <u>\$ 21,937,765</u> | <u>\$ 20,696,912</u> | <u>\$ 44,215</u> | <u>\$ 42,678,892</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension contributions subsequent to measurement date | \$ 44,547 | \$ 38,472 | \$ - | \$ 83,019 |
| Total deferred outflows of resources | <u>\$ 44,547</u> | <u>\$ 38,472</u> | <u>\$ -</u> | <u>\$ 83,019</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 95,741 | \$ 828,118 | \$ 731 | \$ 924,590 |
| Retainage payable | - | 381,842 | - | 381,842 |
| Accrued wages | 27,607 | 24,020 | - | 51,627 |
| Due to other funds | - | - | 66,916 | 66,916 |
| General obligation bonds payable current portion | 331,323 | 189,385 | - | 520,708 |
| Capital leases current portion | 18,134 | 18,134 | - | 36,268 |
| Compensated absences current portion | 31,994 | 27,591 | - | 59,585 |
| Customer deposits | 102,702 | - | - | 102,702 |
| Accrued interest payable | 35,904 | 14,936 | - | 50,840 |
| Total current liabilities | <u>\$ 643,405</u> | <u>\$ 1,484,026</u> | <u>\$ 67,647</u> | <u>\$ 2,195,078</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences, net of current portion | \$ 21,330 | \$ 18,394 | \$ - | \$ 39,724 |
| General obligation bonds payable, net of current portion | 12,275,494 | 7,357,531 | - | 19,633,025 |
| Capital leases, net of current portion | 32,893 | 32,893 | - | 65,786 |
| Total noncurrent liabilities | <u>\$ 12,329,717</u> | <u>\$ 7,408,818</u> | <u>\$ -</u> | <u>\$ 19,738,535</u> |
| Total liabilities | <u>\$ 12,973,122</u> | <u>\$ 8,892,844</u> | <u>\$ 67,647</u> | <u>\$ 21,933,613</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Items related to measurement of net pension liability | \$ 113,293 | \$ 97,844 | \$ - | \$ 211,137 |
| Total deferred inflows of resources | <u>\$ 113,293</u> | <u>\$ 97,844</u> | <u>\$ -</u> | <u>\$ 211,137</u> |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 5,671,207 | \$ 9,218,275 | \$ - | \$ 14,889,482 |
| Unrestricted | 3,224,690 | 2,526,421 | (23,432) | 5,727,679 |
| Total net position | <u>\$ 8,895,897</u> | <u>\$ 11,744,696</u> | <u>\$ (23,432)</u> | <u>\$ 20,617,161</u> |

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

Town of Strasburg, Virginia
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

Exhibit 8

| | Water Fund | Sewer Fund | Trash Fund | Total |
|--|---------------|---------------|---------------|---------------|
| OPERATING REVENUES | | | | |
| Charges for services: | | | | |
| Sale of water | \$ 2,388,957 | \$ - | \$ - | \$ 2,388,957 |
| Sewer service charges | - | 2,326,800 | - | 2,326,800 |
| Trash collection fees | - | - | 274,757 | 274,757 |
| Late payment charges | 47,955 | 47,955 | - | 95,910 |
| Miscellaneous | 12,662 | 1,167 | - | 13,829 |
| Total operating revenues | \$ 2,449,574 | \$ 2,375,922 | \$ 274,757 | \$ 5,100,253 |
| OPERATING EXPENSES | | | | |
| Water treatment facilities, transmission, and distribution | \$ 524,538 | \$ - | \$ - | \$ 524,538 |
| Personnel | 905,359 | 767,736 | - | 1,673,095 |
| Operation and maintenance | - | 673,598 | - | 673,598 |
| Trash collection | - | - | 278,159 | 278,159 |
| Depreciation | 426,144 | 170,810 | - | 596,954 |
| Total operating expenses | \$ 1,856,041 | \$ 1,612,144 | \$ 278,159 | \$ 3,746,344 |
| Net operating income (loss) | \$ 593,533 | \$ 763,778 | \$ (3,402) | \$ 1,353,909 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | \$ 12,689 | \$ 11,279 | \$ - | \$ 23,968 |
| Bond issuance costs | (11,236) | (6,180) | - | (17,416) |
| Interest expense | (356,041) | (55,205) | - | (411,246) |
| Total nonoperating revenues (expenses) | \$ (354,588) | \$ (50,106) | \$ - | \$ (404,694) |
| Income before contributions and transfers | \$ 238,945 | \$ 713,672 | \$ (3,402) | \$ 949,215 |
| Capital contributions and construction grants | \$ 558,257 | \$ 2,265,896 | \$ - | \$ 2,824,153 |
| Change in net position | \$ 797,202 | \$ 2,979,568 | \$ (3,402) | \$ 3,773,368 |
| Net position - beginning, as restated | 8,098,695 | 8,765,128 | (20,030) | 16,843,793 |
| Net position - ending | \$ 8,895,897 | \$ 11,744,696 | \$ (23,432) | \$ 20,617,161 |

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, 2015

Exhibit 9

| | Water Fund | Sewer Fund | Trash Fund | Total |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 2,486,678 | \$ 2,403,507 | \$ 309,980 | \$ 5,200,165 |
| Payments to suppliers for goods and services | (505,060) | (645,355) | (309,980) | (1,460,395) |
| Payments to employees for services | (934,535) | (805,359) | - | (1,739,894) |
| Net cash provided by (used for) operating activities | <u>\$ 1,047,083</u> | <u>\$ 952,793</u> | <u>\$ -</u> | <u>\$ 1,999,876</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Capital asset additions | \$ (554,293) | \$ (6,406,256) | \$ - | \$ (6,960,549) |
| Principal payments on bonds | (624,519) | (336,952) | - | (961,471) |
| Principal payments on lease obligations | (18,566) | (18,566) | - | (37,132) |
| Proceeds from indebtedness | 400,047 | 4,821,151 | - | 5,221,198 |
| Interest payments | (353,109) | (51,496) | - | (404,605) |
| Capital contributions from others | 558,257 | 1,723,420 | - | 2,281,677 |
| Bond issuance costs | (11,236) | (6,180) | - | (17,416) |
| Net cash provided by (used for) capital and related financing activities | <u>\$ (603,419)</u> | <u>\$ (274,879)</u> | <u>\$ -</u> | <u>\$ (878,298)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest and dividends received | \$ 12,689 | \$ 11,279 | \$ - | \$ 23,968 |
| Net cash provided by (used for) investing activities | <u>\$ 12,689</u> | <u>\$ 11,279</u> | <u>\$ -</u> | <u>\$ 23,968</u> |
| Net increase (decrease) in cash and cash equivalents | \$ 456,353 | \$ 689,193 | \$ - | \$ 1,145,546 |
| Cash and cash equivalents (including restricted) - beginning | 4,159,780 | 3,545,169 | - | 7,704,949 |
| Cash and cash equivalents (including restricted) - ending | <u>\$ 4,616,133</u> | <u>\$ 4,234,362</u> | <u>\$ -</u> | <u>\$ 8,850,495</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | \$ 593,533 | \$ 763,778 | \$ (3,402) | \$ 1,353,909 |
| Depreciation expense | 426,144 | 170,810 | - | 596,954 |
| (Increase) decrease in accounts receivable | 27,242 | 27,585 | 1,344 | 56,171 |
| (Increase) decrease in inventory | (50,023) | 1,199 | - | (48,824) |
| (Increase) decrease in net pension asset | (159,864) | (137,909) | - | (297,773) |
| (Increase) decrease in deferred outflows of resources | 9,261 | 7,998 | - | 17,259 |
| Increase (decrease) in customer deposits | 9,862 | - | - | 9,862 |
| Increase (decrease) in accounts payable | 69,501 | 27,044 | (31,821) | 64,724 |
| Increase (decrease) in accrued wages | 4,216 | 600 | - | 4,816 |
| Increase (decrease) in due to other funds | - | - | 33,879 | 33,879 |
| Increase (decrease) in compensated absences | 3,918 | (6,156) | - | (2,238) |
| Increase (decrease) in deferred inflows of resources | 113,293 | 97,844 | - | 211,137 |
| Net cash provided by (used for) operating activities | <u>\$ 1,047,083</u> | <u>\$ 952,793</u> | <u>\$ -</u> | <u>\$ 1,999,876</u> |
| Schedule of non-cash capital and related financing activities: | | | | |
| Issuance of capital leases | \$ 48,865 | \$ 48,865 | \$ - | \$ 97,730 |

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

TOWN OF STRASBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Financial Reporting Entity

The Town of Strasburg, Virginia (the Town) 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, 2015.

Discretely Presented Component Units – There were no discretely presented component units for the Town for the year ended June 30, 2015.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable or deferred inflows. Sales, which are collected by the state and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town. 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 Town's primary operating fund. It accounts for and reports 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 derive the majority of their revenues through user charges and fees.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Cash and Cash Equivalents

The Town'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."

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)

3. *Property Taxes*

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

4. *Allowance for Uncollectible Accounts*

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to approximately \$41,427 at June 30, 2015 and the allowance for uncollectible water, sewer and trash billings amounted to approximately \$51,045 at June 30, 2015.

5. *Inventory*

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

6. *Use of Estimates*

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

7. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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 was not capitalized during the current year.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)

7. Capital Assets (continued)

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

| | |
|------------------------------------|-------------|
| Water plant | 50 years |
| Sewer plant | 30-50 years |
| Reservoir and storage | 10-20 years |
| Lines and meters | 10-50 years |
| Buildings and improvements | 20 years |
| Maintenance building and equipment | 30 years |
| Furniture, equipment and vehicles | 5-50 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 Town'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. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)

10. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and statement of net position. Bond premiums and discounts 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

11. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)

12. *Net Position*

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

13. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town only has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net position liability measurement date, which will be recognized as an increase to the net pension asset next fiscal year. For more detailed information on this item, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. Additionally, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include the differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

14. *Net Position Flow Assumption*

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources, in order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance (continued)

15. Adoption of Accounting Principles/Restatement of Beginning Net Position

The Town adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial reporting for Pensions—an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These Statements establish standards for measuring and recognizing assets/liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in a restatement of net position.

| | | | Business-type Activities | |
|---|----------------------------|----|-----------------------------|---------------------|
| | Governmental Activities | | Water Fund | Sewer Fund |
| Net position as reported at June 30, 2014 | \$ 6,449,818 | \$ | 8,134,807 | \$ 8,796,317 |
| Implementation of GASB 68 | (96,172) | | (36,112) | (31,189) |
| Correction of prior year deferred revenue (Note 19) | <u>(205,913)</u> | | <u>-</u> | <u>-</u> |
| Net position as restated at June 30, 2014 | \$ <u>6,147,733</u> | \$ | <u>8,098,695</u> | \$ <u>8,765,128</u> |

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 position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds and net position—governmental activities* as reported in the government-wide statements of net position. 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 (\$1,585,768) difference for the primary government is as follows:

| | Primary Government |
|--|-----------------------|
| General obligation bonds payable | \$ (1,217,332) |
| Accrued interest payable | (9,706) |
| Capital leases | (171,057) |
| Premium on bond issue | (76,439) |
| Compensated absences | <u>(111,234)</u> |
| Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net position—governmental activities</i> | \$ <u>(1,585,768)</u> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position (continued)

Another element of that reconciliation states that “other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.” The details of this (\$193,321) difference for the primary government are as follows:

| | Primary Government |
|--|-------------------------------|
| Unavailable revenue - property taxes | \$ 108,383 |
| Items related to measurement of net pension liability | (301,704) |
| Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i> | \$ (193,321) |

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 position 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 \$826,148 difference for the primary government is as follows:

| | Primary Government |
|---|-------------------------------|
| Capital outlay | \$ 1,103,908 |
| Depreciation expense | (277,760) |
| Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | \$ 826,148 |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

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

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

Another element of that reconciliation states that “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 position. Also, governmental funds report the effect of 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 \$75,066 difference in the primary government are as follows:

| | Primary Government |
|---|-------------------------------|
| Debt issued or incurred: | |
| Proceeds of refunding bond | \$ (305,900) |
| Premium on refunding bond | (27,723) |
| Capital lease financing | (112,898) |
| Principal repayments: | |
| General obligation bonds | 141,971 |
| Payment to refunded bond escrow agent | 321,100 |
| Capital leases | 56,080 |
| Amortization of premium on bond issue | 2,436 |
| <i>Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities</i> | <i>\$ 75,066</i> |

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 \$96,375 difference for the primary government are as follows:

| | Primary Government |
|--|-------------------------------|
| Compensated absences | \$ 3,144 |
| Accrued interest | (5,502) |
| Net pension asset | (19,751) |
| Deferred outflows related to pension payments subsequent to the measurement date | 118,484 |
| <i>Net adjustment to increase (decrease) net changes in fund balances-total governmental funds to arrive at changes in net position of governmental activities</i> | <i>\$ 96,375</i> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

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 budgetary data presented in the accompanying financial statements is the amended budget as of June 30.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2015, there were no funds in which expenditures exceeded appropriations.

C. Deficit Fund Equity

At June 30, 2015, the Trash fund had deficit fund equity in the amount of (\$23,432).

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.

TOWN OF STRASBURG, VIRGINIA**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)****NOTE 4 — DEPOSITS AND INVESTMENTS: (CONTINUED)****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), 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's investments at June 30, 2015 were held by the Town or in the Town's name by the Town's custodial banks.

Credit Risk of Debt Securities

The Town's rated debt investments as of June 30, 2015 were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor's rating scale.

| <u>Rated Debt Investments' Values</u> | |
|--|-----------------------------------|
| <u>Rated Debt Investments</u> | <u>Fair Quality Rating</u> |
| | <u>AAAm</u> |
| Virginia State Non-Arbitrage Pool | \$ 3,453,834 |
| Total | \$ 3,453,834 |

Interest Rate Risk

The Town invests funds in low risk investments backed by U.S. government agencies.

External Investment Pool

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission.

NOTE 5 — RECEIVABLES:

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

| | <u>General</u> | <u>Water</u> | <u>Sewer</u> | <u>Trash</u> | <u>Total</u> |
|------------------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Receivables: | | | | | |
| Property taxes | \$ 913,739 | \$ - | \$ - | \$ - | \$ 913,739 |
| Accounts | 78,297 | 300,979 | 353,818 | 47,875 | 780,969 |
| Gross receivables | \$ 992,036 | \$ 300,979 | \$ 353,818 | \$ 47,875 | \$ 1,694,708 |
| Less: allowance for uncollectibles | (41,427) | (21,194) | (26,191) | (3,660) | (92,472) |
| Net total receivables | \$ 950,609 | \$ 279,785 | \$ 327,627 | \$ 44,215 | \$ 1,602,236 |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 6 — DUE FROM OTHER GOVERNMENTAL UNITS:

| | Primary Government | | |
|-----------------------------------|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total |
| Commonwealth of Virginia: | | | |
| Communications tax | \$ 13,636 | \$ - | \$ 13,636 |
| Sales tax | 60,638 | - | 60,638 |
| Total Commonwealth of Virginia | <u>\$ 74,274</u> | <u>\$ -</u> | <u>\$ 74,274</u> |
| Federal Government: | | | |
| Water and waste disposal systems | \$ - | \$ 542,476 | \$ 542,476 |
| Highway planning and construction | 21,480 | - | 21,480 |
| Total Federal Government | <u>\$ 21,480</u> | <u>\$ 542,476</u> | <u>\$ 563,956</u> |
| Total | <u>\$ 95,754</u> | <u>\$ 542,476</u> | <u>\$ 638,230</u> |

NOTE 7 — RESTRICTED ASSETS:

Restricted cash and cash equivalents consists of the following for June 30, 2015:

| | General Fund | Water Fund | Sewer Fund | Total |
|---------------------------------|-------------------|---------------------|---------------------|---------------------|
| Business-type Activities | | | | |
| Utility deposits | \$ - | \$ 104,975 | \$ - | \$ 104,975 |
| Unspent bond proceeds | - | 1,285,267 | 1,285,267 | 2,570,534 |
| Reserved for debt service | - | 120,332 | 120,332 | 240,664 |
| Unspent capital lease proceeds | - | 34,558 | 34,558 | 69,116 |
| Totals | <u>\$ -</u> | <u>\$ 1,545,132</u> | <u>\$ 1,440,157</u> | <u>\$ 2,985,289</u> |
| Governmental Funds | | | | |
| Restricted for proffers | \$ 70,166 | \$ - | \$ - | \$ 70,166 |
| Unspent bond proceeds | 642,634 | - | - | 642,634 |
| Unspent capital lease proceeds | 34,558 | - | - | 34,558 |
| Totals | <u>\$ 747,358</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 747,358</u> |

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 8 — CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2015.

Governmental Activities:

| | Balance July 1, 2014 | Increases | Decreases | Transfers | Balance June 30, 2015 |
|--|----------------------------|--------------|-------------|----------------|-----------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 639,469 | \$ - | \$ - | \$ - | \$ 639,469 |
| Construction in progress | 1,301,664 | 985,685 | - | (2,145,460) | 141,889 |
| Total capital assets not being depreciated | \$ 1,941,133 | \$ 985,685 | \$ - | \$ (2,145,460) | \$ 781,358 |
| Other capital assets: | | | | | |
| Buildings and improvements | \$ 1,886,977 | \$ 26,609 | \$ - | \$ - | \$ 1,913,586 |
| Furniture, equipment and vehicles | 2,780,804 | 91,614 | (24,678) | - | 2,847,740 |
| Infrastructure | 3,668,334 | - | - | 2,145,460 | 5,813,794 |
| Total other capital assets | \$ 8,336,115 | \$ 118,223 | \$ (24,678) | \$ 2,145,460 | \$ 10,575,120 |
| Accumulated depreciation: | | | | | |
| Buildings and improvements | \$ (1,004,244) | \$ (48,512) | \$ - | \$ - | \$ (1,052,756) |
| Furniture, equipment and vehicles | (2,189,450) | (128,834) | 24,678 | - | (2,293,606) |
| Infrastructure | (1,387,061) | (100,414) | - | - | (1,487,475) |
| Total accumulated depreciation | \$ (4,580,755) | \$ (277,760) | \$ 24,678 | \$ - | \$ (4,833,837) |
| Other capital assets, net | \$ 3,755,360 | \$ (159,537) | \$ - | \$ 2,145,460 | \$ 5,741,283 |
| Net capital assets | \$ 5,696,493 | \$ 826,148 | \$ - | \$ - | \$ 6,522,641 |
| Depreciation expense was allocated as follows: | | | | | |
| General government administration | \$ 56,857 | | | | |
| Public safety | 58,317 | | | | |
| Public works | 143,217 | | | | |
| Parks, recreation and cultural | 19,369 | | | | |
| Total depreciation expense | \$ 277,760 | | | | |

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 8 — CAPITAL ASSETS: (CONTINUED)

Business-type Activities:

| | Balance July 1, 2014 | Increases | Decreases | Transfers | Balance June 30, 2015 |
|--|----------------------------|--------------|-----------|--------------|-----------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 404,837 | \$ - | \$ - | \$ - | \$ 404,837 |
| Construction in progress | 3,427,213 | 7,286,878 | - | (311,346) | 10,402,745 |
| Total capital assets not being depreciated | \$ 3,832,050 | \$ 7,286,878 | \$ - | \$ (311,346) | \$ 10,807,582 |
| Other capital assets: | | | | | |
| Equipment and vehicles | \$ 1,582,897 | \$ 153,443 | \$ - | \$ - | \$ 1,736,340 |
| Buildings and improvements | 259,117 | - | - | - | 259,117 |
| Infrastructure | 27,829,333 | - | - | 311,346 | 28,140,679 |
| Total other capital assets | \$ 29,671,347 | \$ 153,443 | \$ - | \$ 311,346 | \$ 30,136,136 |
| Accumulated depreciation: | | | | | |
| Equipment and vehicles | \$ (1,272,037) | \$ (62,003) | \$ - | \$ - | \$ (1,334,040) |
| Buildings and improvements | (191,478) | (7,239) | - | - | (198,717) |
| Infrastructure | (6,723,269) | (527,712) | - | - | (7,250,981) |
| Total accumulated depreciation | \$ (8,186,784) | \$ (596,954) | \$ - | \$ - | \$ (8,783,738) |
| Other capital assets, net | \$ 21,484,563 | \$ (443,511) | \$ - | \$ 311,346 | \$ 21,352,398 |
| Net capital assets | \$ 25,316,613 | \$ 6,843,367 | \$ - | \$ - | \$ 32,159,980 |

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TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 9 — LONG-TERM OBLIGATIONS:

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, 2015:

| | Balance July 1, 2014 | Issuances/ Increases | Retirements | Balance June 30, 2015 |
|----------------------------------|----------------------------|-------------------------|---------------------|-----------------------------|
| Governmental Activities: | | | | |
| General obligation bonds | \$ 1,374,504 | \$ 305,900 | \$ 463,071 | \$ 1,217,333 |
| Unamortized bond premium | 51,152 | 27,723 | 2,436 | 76,439 |
| Capital leases | 114,238 | 112,898 | 56,080 | 171,056 |
| Compensated absences | 114,378 | 65,483 | 68,627 | 111,234 |
| Total governmental activities | <u>\$ 1,654,272</u> | <u>\$ 512,004</u> | <u>\$ 590,214</u> | <u>\$ 1,576,062</u> |
| Business-type Activities: | | | | |
| General obligation/revenue bonds | \$ 15,796,871 | \$ 5,078,236 | \$ 961,471 | \$ 19,913,636 |
| Unamortized bond premium | 204,608 | 45,232 | 9,743 | 240,097 |
| Capital lease | 41,456 | 97,730 | 37,132 | 102,054 |
| Compensated absences | 101,547 | 55,110 | 57,348 | 99,309 |
| Total business-type activities | <u>\$ 16,144,482</u> | <u>\$ 5,276,308</u> | <u>\$ 1,065,694</u> | <u>\$ 20,355,096</u> |
| Total | <u>\$ 17,798,754</u> | <u>\$ 5,788,312</u> | <u>\$ 1,655,908</u> | <u>\$ 21,931,158</u> |

Details of long-term obligations:

| | Total Amount Due | Amount Due Within One Year |
|---|------------------------|----------------------------------|
| Governmental Activities: | | |
| Capital Leases: | | |
| \$104,428 issued October 2, 2013, due in annual installments of \$36,209, interest at 2%, beginning October 2, 2014, through October 2, 2016 for the purchase of 3 police vehicles. | \$ 70,307 | \$ 34,803 |
| \$103,675 issued February 27, 2015, due in annual installments of \$21,750, interest at 2.18%, beginning May 15, 2015, through May 15, 2019 for the purchase of a dump truck. \$34,558 allocated to the general fund. | 27,330 | 6,778 |
| \$42,919 issued February 27, 2015, due in annual installments of \$14,663, interest at 2.03%, beginning May 15, 2015, through May 15, 2017 for the purchase of a truck. \$14,306 allocated to the general fund. | 9,386 | 4,787 |
| \$64,033 issued October 17, 2014, due in annual installments of \$22,182, interest at 1.95%, beginning October 20, 2015 through October 20, 2017 for the purchase of two vehicles. | 64,033 | 20,934 |
| Total capital leases | <u>\$ 171,056</u> | <u>\$ 67,302</u> |

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 9 — LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations: (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, through October 2019, with interest at 3.75%. | \$ 248,433 | \$ 52,708 |
| Series 2014A, \$3,315,000 VRA bonds issued May 1 2014, \$663,000 allocated to the general fund, payable in varying semi-annual installments, through April 2035, with interest at 2.6174%. | 663,000 | 22,000 |
| Series 2014C, \$805,000 refunding bonds issued November 15, 2014, \$305,900 allocated to the general fund, payable in varying semi-annual installments, through October 1, 2018, with interest at 2.178274%. | 305,900 | 72,200 |
| Total general obligation bonds | \$ 1,217,333 | \$ 146,908 |
| Unamortized bond premium | \$ 76,439 | \$ 9,367 |
| Compensated absences | \$ 111,234 | \$ 66,740 |
| Total governmental activities | \$ 1,576,062 | \$ 290,317 |
| Business-type Activities: | | |
| Capital leases: | | |
| \$41,456 issued October 2, 2013, due in annual installments of \$13,818, interest at 2%, beginning October 2, 2014, through October 2, 2016 for the purchase of 2 vehicles. | \$ 27,909 | \$ 13,818 |
| \$103,675 issued February 27, 2015, due in annual installments of \$21,750, interest at 2.18%, beginning May 15, 2015, through May 15, 2019 for the purchase of a dump truck. \$69,117 allocated to the business-type activities. | 55,085 | 13,158 |
| \$42,919 issued February 27, 2015, due in annual installments of \$14,663, interest at 2.03%, beginning May 15, 2015, through May 15, 2017 for the purchase of a truck. \$26,612 allocated to the business-type activities. | 19,060 | 9,292 |
| Total capital leases | \$ 102,054 | \$ 36,268 |

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 9 — LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations: (continued)

| | <u>Total Amount Due</u> | <u>Amount Due Within One Year</u> |
|--|---------------------------------|---|
| Business-type Activities: (continued) | | |
| General Obligation Bonds: | | |
| Series 2001, \$1,926,000 issued November 2000, payable in semi-annual installments of \$48,150 through September 2022 at 0% interest. | \$ 708,575 | \$ 94,701 |
| 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%. | 8,441,822 | 155,019 |
| 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%. | 2,390,381 | 44,137 |
| Series 2014A, \$3,315,000 VRA bonds issued May 1 2014, \$1,326,000 allocated to both the water and sewer fund, payable in varying semi-annual installments, through April 2035, with interest at 2.6174%. | 2,652,000 | 88,000 |
| Series 2014, \$16,392,792 VRA loan issued June 17, 2014 payable in semi-annual installments through June 17, 2042 when the principal is due with interest at 0%. \$5,221,758 had been drawn down at year-end. | 5,221,758 | - |
| Series 2014C, \$805,000 refunding bonds issued November 15, 2014, \$499,100 allocated to the business-type activities, payable in varying semi-annual installments, through October 1, 2018, with interest at 2.178274%. | 499,100 | 117,800 |
| Total general obligation bonds | \$ 19,913,636 | \$ 499,657 |
| Unamortized bond premium | \$ 240,097 | \$ 21,051 |
| Compensated absences | \$ 99,309 | \$ 59,585 |
| Total Business-type Activities | <u>\$ 20,355,096</u> | <u>\$ 616,561</u> |

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

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--------------------------|------------------------------------|-------------------------------------|
| Asset: | | |
| Machinery and equipment | \$ 217,325 | \$ 110,573 |
| Accumulated depreciation | (53,893) | (15,298) |
| Total | <u>\$ 163,432</u> | <u>\$ 95,275</u> |

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 9 — LONG-TERM OBLIGATIONS: (CONTINUED)

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2015, were as follows:

| Fiscal Year Ending June 30, | Governmental Activities | Business-type Activities |
|---|------------------------------------|-------------------------------------|
| 2016 | \$ 70,772 | \$ 38,409 |
| 2017 | 70,490 | 38,552 |
| 2018 | 29,578 | 14,843 |
| 2019 | 6,704 | 14,701 |
| Total minimum lease payments | \$ 177,544 | \$ 106,505 |
| Less: amount representing interest | (6,488) | (4,451) |
| Present value of minimum lease payments | <u>\$ 171,056</u> | <u>\$ 102,054</u> |

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

| Year Ending June 30, | Governmental Activities | | | | | |
|----------------------------|-------------------------|----------|--------------------------|------------|--------------|------------|
| | Capital Leases | | General Obligation Bonds | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 67,302 | \$ 3,470 | \$ 146,908 | \$ 45,788 | \$ 214,210 | \$ 49,258 |
| 2017 | 68,372 | 2,118 | 153,719 | 40,700 | 222,091 | 42,818 |
| 2018 | 28,837 | 740 | 158,707 | 34,418 | 187,544 | 35,158 |
| 2019 | 6,545 | 159 | 163,774 | 27,029 | 170,319 | 27,188 |
| 2020 | - | - | 51,225 | 22,117 | 51,225 | 22,117 |
| 2021 | - | - | 27,000 | 20,958 | 27,000 | 20,958 |
| 2022 | - | - | 28,000 | 19,924 | 28,000 | 19,924 |
| 2023 | - | - | 29,000 | 18,743 | 29,000 | 18,743 |
| 2024 | - | - | 30,000 | 17,421 | 30,000 | 17,421 |
| 2025 | - | - | 31,000 | 16,053 | 31,000 | 16,053 |
| 2026 | - | - | 33,000 | 14,503 | 33,000 | 14,503 |
| 2027 | - | - | 35,000 | 12,861 | 35,000 | 12,861 |
| 2028 | - | - | 36,000 | 11,196 | 36,000 | 11,196 |
| 2029 | - | - | 38,000 | 9,780 | 38,000 | 9,780 |
| 2030 | - | - | 39,000 | 8,569 | 39,000 | 8,569 |
| 2031 | - | - | 40,000 | 7,278 | 40,000 | 7,278 |
| 2032 | - | - | 42,000 | 5,858 | 42,000 | 5,858 |
| 2033 | - | - | 43,000 | 4,304 | 43,000 | 4,304 |
| 2034 | - | - | 45,000 | 2,639 | 45,000 | 2,639 |
| 2035 | - | - | 47,000 | 891 | 47,000 | 891 |
| Total | \$ 171,056 | \$ 6,487 | \$ 1,217,333 | \$ 341,030 | \$ 1,388,389 | \$ 347,517 |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 9 — LONG-TERM OBLIGATIONS: (CONTINUED)

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

| Year Ending June 30, | Business-type Activities Debt | | | | | |
|----------------------------|-------------------------------|--------------|---------------|----------|---------------|--------------|
| | General Obligation Bonds | | Capital Lease | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$ 499,657 | \$ 404,232 | \$ 36,268 | \$ 2,141 | \$ 535,925 | \$ 406,373 |
| 2017 | 619,583 | 391,983 | 37,163 | 1,389 | 656,746 | 393,372 |
| 2018 | 736,550 | 377,222 | 13,743 | 612 | 750,293 | 377,834 |
| 2019 | 749,226 | 360,330 | 14,880 | 309 | 764,106 | 360,639 |
| 2020 | 628,750 | 347,422 | - | - | 628,750 | 347,422 |
| 2021 | 638,626 | 337,893 | - | - | 638,626 | 337,893 |
| 2022 | 648,659 | 327,723 | - | - | 648,659 | 327,723 |
| 2023 | 609,822 | 316,808 | - | - | 609,822 | 316,808 |
| 2024 | 574,508 | 305,163 | - | - | 574,508 | 305,163 |
| 2025 | 585,034 | 293,164 | - | - | 585,034 | 293,164 |
| 2026 | 599,734 | 280,265 | - | - | 599,734 | 280,265 |
| 2027 | 614,612 | 266,817 | - | - | 614,612 | 266,817 |
| 2028 | 625,672 | 253,100 | - | - | 625,672 | 253,100 |
| 2029 | 640,920 | 240,187 | - | - | 640,920 | 240,187 |
| 2030 | 652,360 | 227,904 | - | - | 652,360 | 227,904 |
| 2031 | 663,998 | 215,098 | - | - | 663,998 | 215,098 |
| 2032 | 679,839 | 201,577 | - | - | 679,839 | 201,577 |
| 2033 | 691,888 | 187,313 | - | - | 691,888 | 187,313 |
| 2034 | 708,152 | 172,392 | - | - | 708,152 | 172,392 |
| 2035 | 724,634 | 156,920 | - | - | 724,634 | 156,920 |
| 2036 | 545,342 | 144,644 | - | - | 545,342 | 144,644 |
| 2037 | 554,282 | 135,705 | - | - | 554,282 | 135,705 |
| 2038 | 563,459 | 126,528 | - | - | 563,459 | 126,528 |
| 2039 | 572,879 | 117,107 | - | - | 572,879 | 117,107 |
| 2040 | 582,550 | 107,436 | - | - | 582,550 | 107,436 |
| 2041 | 592,479 | 97,508 | - | - | 592,479 | 97,508 |
| 2042 | 498,235 | 87,316 | - | - | 498,235 | 87,316 |
| 2043 | 404,262 | 76,854 | - | - | 404,262 | 76,854 |
| 2044 | 415,003 | 66,113 | - | - | 415,003 | 66,113 |
| 2045 | 426,029 | 55,087 | - | - | 426,029 | 55,087 |
| 2046 | 437,348 | 43,768 | - | - | 437,348 | 43,768 |
| 2047 | 448,967 | 32,149 | - | - | 448,967 | 32,149 |
| 2048 | 460,895 | 20,221 | - | - | 460,895 | 20,221 |
| 2049 | 473,140 | 7,976 | - | - | 473,140 | 7,976 |
| 2050 | 46,542 | 135 | - | - | 46,542 | 135 |
| Total | \$ 19,913,636 | \$ 6,782,060 | \$ 102,054 | \$ 4,451 | \$ 20,015,690 | \$ 6,786,511 |

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 10 — PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

| RETIREMENT PLAN PROVISIONS | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> | <p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 (Cont.)</p> | <p>About Plan 2 (Cont.)</p> | <p>About Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p> |
| <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> | <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p> | <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> |
| <p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> | <p>Creditable Service Same as Plan 1.</p> | <p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Vesting (Cont.) | Vesting (Cont.) | <p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p> |
| <p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p> | <p>Calculating the Benefit (Cont.)</p> | <p>Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p> |
| <p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p> |
| <p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p> | <p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p> | <p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p> | <p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> |
| <p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p> | <p>Purchase of Prior Service Same as Plan 1.</p> | <p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. •The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. •Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p>Defined Contribution Component: Not applicable.</p> |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|----------------------|
| Inactive members or their beneficiaries currently receiving benefits | 24 |
| Inactive members: | |
| Vested inactive members | 5 |
| Non-vested inactive members | 10 |
| Inactive members active elsewhere in VRS | <u>44</u> |
| Total inactive members | 59 |
| Active members | <u>57</u> |
| Total covered employees | <u><u>140</u></u> |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required contribution rate for the year ended June 30, 2015 was 7.87% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$201,503 and \$243,570 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Asset

The Town's net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% – 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% – 4.75% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 10 — PENSION PLAN: (CONTINUED)

Actuarial Assumptions – Public Safety Employees (Continued)

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|-------------------------------|--------------------------|---|---|
| U.S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U.S. Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 0.09% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | 1.00% | -1.50% | -0.02% |
| Total | 100.00% | | 5.83% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal return | 8.33% |

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Changes in Net Pension Liability (Asset)

| | Primary Government Increase (Decrease) | | |
|--|---|--|--------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Asset (a) - (b) |
| Balances at June 30, 2013 | \$ 7,560,508 | \$ 7,153,465 | \$ 407,043 |
| Changes for the year: | | | |
| Service cost | \$ 286,988 | \$ - | \$ 286,988 |
| Interest | 521,309 | - | 521,309 |
| Contributions - employer | - | 243,570 | (243,570) |
| Contributions - employee | - | 146,184 | (146,184) |
| Net investment income | - | 1,147,301 | (1,147,301) |
| Benefit payments, including refunds of employee contributions | (226,479) | (226,479) | - |
| Administrative expenses | - | (5,980) | 5,980 |
| Other changes | - | 60 | (60) |
| Net changes | \$ 581,818 | \$ 1,304,656 | \$ (722,838) |
| Balances at June 30, 2014 | \$ 8,142,326 | \$ 8,458,121 | \$ (315,795) |

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|-------------------------------|--------------|--------------|----------------|
| | (6.00%) | (7.00%) | (8.00%) |
| Town | | | |
| Net Pension Liability (Asset) | \$ 1,017,236 | \$ (315,795) | \$ (1,394,301) |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)

NOTE 10 — PENSION PLAN: (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Town recognized pension expense of \$33,573 at June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 512,841 |
| Employer contributions subsequent to the measurement date | <u>201,503</u> | <u>-</u> |
| Total | \$ <u>201,503</u> | \$ <u>512,841</u> |

\$201,503 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,

| | |
|------------|--------------|
| 2016 | \$ (128,210) |
| 2017 | (128,210) |
| 2018 | (128,210) |
| 2019 | (128,211) |
| Thereafter | - |

NOTE 11 — OTHER POST-EMPLOYMENT BENEFITS:

Plan Description

The Town participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the Town, who retires under VRS with at least 15 years of total creditable service under the system and is enrolled in a health insurance plan, is eligible to receive a monthly credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 11 — OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)

Plan Description (Continued)

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 10.

Funding Policy

The employer is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2015 was 0.12% of annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation

The annual cost of other postemployment benefits (OPEB) under Governmental Accounting Standards Board (GASB) 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, is based on the annual required contribution (ARC). The Town is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2015, the Town's contribution of \$3,091 was equal to the ARC and OPEB cost. The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years are as follows:

| Fiscal Year Ending | Annual OPEB Cost (ARC) | Percentage of ARC Contributed | Net OPEB Obligation |
|-------------------------------|---------------------------------------|--|------------------------------------|
| June 30, 2015 | \$ 3,091 | 100.00% | \$ - |
| June 30, 2014 | 4,476 | 100.00% | - |
| June 30, 2013 | 4,223 | 100.00% | - |

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 11 — OTHER POST-EMPLOYMENT BENEFITS: (Continued)

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the Town's plan was 81.51% funded. The actuarial accrued liability for benefits was \$70,554, and the actuarial value of assets was \$57,512, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,042. The covered payroll (annual payroll of active employees covered by the plan) was \$2,496,690, and ratio of the UAAL to the covered payroll was 0.52%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements presents multi-year 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. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7% investment rate of return, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2014 was 20-29 years.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 11 — OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Measurement of Actuarial Information

The Town has elected to calculate information of an actuarial nature using the alternative measurement method permitted by GASB 43, for plans with fewer than 100 participants.

The following simplifying assumptions were made:

Retirement age for active employees – Retirement age was estimated based on tables used for the VRS pension valuation and assumed that participants begin to retire when they become eligible to receive healthcare benefits.

Mortality – Life expectancies were based on the mortality tables provided by GASB Post Employment Benefit Plans Other Than Pension Plans – Defined Benefit – Po50.136 Tables 1 and 2.

Coverage Elections – It was assumed that for those employees currently on the Commission's health insurance plan that they would continue it into retirement (if eligible).

Interest Assumptions

| | |
|-----------------------------------|-------|
| Funding interest rate | 7.00% |
| Annual amortization increase rate | 2.50% |

NOTE 12 — SURETY BONDS:

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

NOTE 13 — 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.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

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.

NOTE 15 — INTERFUND RECEIVABLE AND PAYABLES:

The Town had the following receivable or payable balances between the governmental and proprietary type funds at June 30, 2015.

| | Due From | Due To |
|--------------------|-----------|-----------|
| Governmental Funds | \$ 66,916 | \$ - |
| Proprietary Funds | - | 66,916 |
| Total | \$ 66,916 | \$ 66,916 |

NOTE 16 — DEFERRED, UNAVAILABLE, AND UNEARNED REVENUE:

Deferred and unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred, unavailable, and unearned revenue in the government-wide financial statements and fund financial statements totaling \$783,474, \$891,857, and \$534,314, respectively, is comprised of the following:

- A. Prepaid Property Taxes -Property taxes due subsequent to June 30, 2015 but paid in advance by the taxpayers totaled \$27,809 at June 30, 2015.
- B. Unbilled Property Taxes – Property taxes for the second half of 2015 that had not been billed as of June 30, 2015 amounted to \$755,665.
- C. Unavailable Property Taxes – Uncollected tax billings not available for funding of current expenditures totaled \$108,383.
- D. Unearned Revenue – VDOT carryover – unearned revenue representing VDOT highway maintenance funds not available to fund current expenditures totaled \$534,314.

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 (CONTINUED)**

NOTE 17 — COMMITMENTS:

The Town had the following material contracts outstanding at June 30, 2015:

| Project | Original Contract Amount | Amount Spent to Date | Amount of Contract Remaining at Year End |
|---------------------------------|--------------------------------|----------------------------|---|
| WWTP Construction and Expansion | \$ 24,582,500 | \$ 6,704,374 | \$ 17,878,126 |
| Total | \$ 24,582,500 | \$ 6,704,374 | \$ 17,878,126 |

NOTE 18 — LITIGATION:

At June 30, 2015, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

NOTE 19 — RESTATEMENT OF BEGINNING FUND BALANCE/NET POSTION:

In addition to the adjustments resulting from the implementation of new accounting statements discussed in Note 1, the beginning fund balance and net position of the general fund was adjusted for state and highway maintenance deferred revenue previously reported at the incorrect amount as follows:

| | Governmental Activities Fund Balance | Government-wide Net Position |
|---|--|---------------------------------|
| As previously reported, June 30, 2014 | \$ 2,297,351 | \$ 6,449,818 |
| To adjust for State Highway Maintenance funds not deferred in prior year | (205,913) | (205,913) |
| Implementation of GASB 68 | - | (96,172) |
| As adjusted, June 30, 2014 | \$ 2,091,438 | \$ 6,147,733 |

NOTE 20 — UPCOMING PRONOUNCEMENTS:

Statement No. 72, *Fair Value Measurement and Application*, amends the definitions of fair value used throughout GASB literature to be consistent with the definition and principles provided in FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015 (CONTINUED)

NOTE 20 — UPCOMING PRONOUNCEMENTS (CONTINUED)

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. No formal study or estimate of the impact of this standard has been performed.

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REQUIRED SUPPLEMENTARY INFORMATION

General Fund

Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual

For the Year Ended June 30, 2015

| | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | Actual Amounts | |
| REVENUES | | | | |
| General property taxes | \$ 1,796,990 | \$ 1,796,990 | \$ 1,660,060 | \$ (136,930) |
| Other local taxes | 1,596,500 | 1,596,500 | 1,749,032 | 152,532 |
| Permits, privilege fees, and regulatory licenses | 15,000 | 15,000 | 8,504 | (6,496) |
| Fines and forfeitures | 35,000 | 35,000 | 41,521 | 6,521 |
| Revenue from the use of money and property | 74,000 | 74,000 | 59,172 | (14,828) |
| Charges for services | 71,355 | 71,355 | 53,954 | (17,401) |
| Miscellaneous | 43,100 | 43,100 | 70,403 | 27,303 |
| Intergovernmental: | | | | |
| Commonwealth | 641,137 | 641,137 | 663,285 | 22,148 |
| Federal | 550,000 | 550,000 | 886,782 | 336,782 |
| Total revenues | <u>\$ 4,823,082</u> | <u>\$ 4,823,082</u> | <u>\$ 5,192,713</u> | <u>\$ 369,631</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | \$ 731,710 | \$ 731,710 | \$ 603,203 | \$ 128,507 |
| Public safety | 1,745,943 | 1,745,943 | 1,753,368 | (7,425) |
| Public works | 1,112,806 | 1,112,806 | 1,225,170 | (112,364) |
| Health and welfare | - | - | 10,265 | (10,265) |
| Parks, recreation and cultural | 177,738 | 177,738 | 180,424 | (2,686) |
| Community development | 64,600 | 64,600 | 54,697 | 9,903 |
| Capital outlay: | | | | |
| Administrative | 771,390 | 800,820 | 584,057 | 216,763 |
| Public safety | 66,000 | 66,000 | 78,339 | (12,339) |
| Public Works | 92,620 | 92,620 | 8,522 | 84,098 |
| Parks, recreation and cultural | 10,000 | 10,000 | 9,357 | 643 |
| Debt service: | | | | |
| Principal | 116,949 | 116,949 | 198,051 | (81,102) |
| Interest | 64,946 | 64,946 | 64,946 | - |
| Total expenditures | <u>\$ 4,954,702</u> | <u>\$ 4,984,132</u> | <u>\$ 4,770,399</u> | <u>\$ 213,733</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (131,620)</u> | <u>\$ (161,050)</u> | <u>\$ 422,314</u> | <u>\$ 583,364</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refunding bonds issued | \$ - | \$ - | \$ 305,900 | \$ 305,900 |
| Issuance of capital leases | 131,620 | 161,050 | 112,898 | (48,152) |
| Premium on refunding bonds issued | - | - | 27,723 | 27,723 |
| Payment to refunded bond escrow agent | - | - | (321,100) | (321,100) |
| Total other financing sources (uses) | <u>\$ 131,620</u> | <u>\$ 161,050</u> | <u>\$ 125,421</u> | <u>\$ (35,629)</u> |
| Net change in fund balances | \$ - | \$ - | \$ 547,735 | \$ 547,735 |
| Fund balances - beginning, as restated | - | - | 2,091,438 | 2,091,438 |
| Fund balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,639,173</u> | <u>\$ 2,639,173</u> |

Schedule of OPEB Funding Progress - VRS Health Insurance Credit Program

June 30, 2015

| Actuarial Valuation Date | | Actuarial Value of Assets (a) | | Actuarial Accrued Liability (AAL) (b) | | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | | Funded Ratio (a/b) | | Covered Payroll (c) | | UAAL as % of Covered Payroll ((b-a)/c) |
|--------------------------------|----|--|----|---|----|--|--|----------------------------|----|-----------------------------|--|--|
| 06/30/14 | \$ | 57,512 | \$ | 70,554 | \$ | 13,042 | | 81.51% | \$ | 2,496,690 | | 0.52% |
| 06/30/13 | | 48,053 | | 56,222 | | 8,169 | | 85.47% | | 2,406,843 | | 0.34% |
| 06/30/12 | | 36,452 | | 54,658 | | 18,206 | | 66.69% | | 2,551,778 | | 0.71% |

Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Year Ended June 30, 2015

| | 2014 |
|---|---------------------|
| Total pension liability | |
| Service cost | \$ 286,988 |
| Interest | 521,309 |
| Benefit payments, including refunds of employee contributions | (226,479) |
| Net change in total pension liability | \$ 581,818 |
| Total pension liability - beginning | 7,560,508 |
| Total pension liability - ending (a) | \$ 8,142,326 |
| Plan fiduciary net position | |
| Contributions - employer | \$ 243,570 |
| Contributions - employee | 146,184 |
| Net investment income | 1,147,301 |
| Benefit payments, including refunds of employee contributions | (226,479) |
| Administrative expense | (5,980) |
| Other | 60 |
| Net change in plan fiduciary net position | \$ 1,304,656 |
| Plan fiduciary net position - beginning | 7,153,465 |
| Plan fiduciary net position - ending (b) | \$ 8,458,121 |
| Town's net pension asset - ending (a) - (b) | \$ (315,795) |
| Plan fiduciary net position as a percentage of the total pension liability | 103.88% |
| Covered-employee payroll | \$ 2,496,690 |
| Town's net pension asset as a percentage of covered-employee payroll | -12.65% |

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Year Ended June 30, 2015

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Employee Payroll (4) | Contributions as a % of Covered Employee Payroll (5) |
|-------------|--|---|---|--|---|
| 2015 | \$ 201,503 | \$ 201,503 | \$ - | \$ 2,575,772 | 7.823% |

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
Year Ended June 30, 2015

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

STATISTICAL TABLES

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Town of Strasburg, Virginia
Government-wide Expenses by Function
Last Ten Fiscal Years

| <u>Fiscal Year</u> | <u>General Government Administration</u> | <u>Public Safety</u> | <u>Public Works</u> | <u>Parks, Recreation, and Cultural</u> | <u>Health and Welfare</u> | <u>Community Development</u> |
|------------------------|--|--------------------------|-------------------------|--|-------------------------------|----------------------------------|
| 2014-15 | \$ 627,706 | \$ 1,829,034 | \$ 848,525 | \$ 209,150 | \$ 10,265 | \$ 54,697 |
| 2013-14 | 473,961 | 1,870,902 | 1,181,572 | 211,906 | 9,661 | 52,258 |
| 2012-13 | 532,547 | 1,773,475 | 1,247,980 | 177,249 | 9,399 | 55,221 |
| 2011-12 | (1) 505,436 | 1,723,170 | 1,210,481 | 179,400 | 9,272 | 40,116 |
| 2010-11 | 662,672 | 1,623,621 | 1,148,847 | 43,115 | 7,305 | 27,500 |
| 2009-10 | 684,734 | 1,670,107 | 1,409,366 | 33,150 | 6,971 | 35,085 |
| 2008-09 | 558,230 | 1,668,255 | 1,276,394 | 37,984 | - | 16,352 |
| 2007-08 | 619,959 | 1,574,469 | 1,271,651 | 41,378 | - | 28,697 |
| 2006-07 | 486,375 | 1,481,260 | 1,639,106 | 37,718 | - | 33,024 |
| 2005-06 | 449,250 | 1,220,144 | 1,019,816 | 36,844 | - | 23,490 |

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

Table 1

| Interest on Long- term Debt | Water | Sewer | Trash | Recreation | Total |
|-----------------------------------|--------------|--------------|------------|------------|--------------|
| \$ 68,012 | \$ 2,223,318 | \$ 1,673,529 | \$ 278,159 | \$ - | \$ 7,822,395 |
| 43,664 | 1,931,953 | 1,692,520 | 314,263 | - | 7,782,660 |
| 38,526 | 1,725,249 | 1,554,539 | 301,194 | - | 7,415,379 |
| 45,836 | 1,437,482 | 1,547,325 | 295,362 | - | 6,993,880 |
| 52,218 | 1,897,287 | 1,406,216 | 301,737 | 146,956 | 7,317,474 |
| 64,539 | 1,570,493 | 1,557,148 | 321,645 | 162,475 | 7,515,713 |
| 72,991 | 1,538,738 | 1,508,449 | 237,830 | 154,290 | 7,069,513 |
| 81,543 | 1,412,641 | 1,493,954 | 204,149 | 167,320 | 6,895,761 |
| 94,341 | 1,338,398 | 1,367,215 | 177,223 | 126,550 | 6,781,210 |
| 94,298 | 1,163,033 | 1,150,540 | 154,636 | 121,542 | 5,433,593 |

Town of Strasburg, Virginia
Government-wide Revenues
Last Ten Fiscal Years

| Fiscal Year | PROGRAM REVENUES | | |
|----------------|----------------------------|---|---|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| 2014-15 | \$ 5,190,403 | \$ 567,380 | \$ 3,665,919 |
| 2013-14 | 5,455,727 | 774,244 | 2,187,659 |
| 2012-13 | 5,374,095 | 99,792 | 1,132,892 |
| 2011-12 | (1) 4,716,323 | 99,792 | 1,550,467 |
| 2010-11 | 3,972,733 | 103,424 | 1,035,935 |
| 2009-10 | 3,572,264 | 104,652 | 806,897 |
| 2008-09 | 3,183,282 | 114,186 | 1,034,438 |
| 2007-08 | 2,913,871 | 118,645 | 1,764,141 |
| 2006-07 | 2,463,080 | 118,020 | 1,333,523 |
| 2005-06 | 2,209,053 | 113,800 | 1,034,085 |

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

Table 2

| GENERAL REVENUES | | | | | |
|------------------------------|-------------------------|--|--------------------|--|---------------|
| General Property Taxes | Other Local Taxes | Unrestricted Investment Earnings | Mis- cellaneous | Grants and Contributions Not Restricted to Specific Programs | Total |
| \$ 1,653,993 | \$ 1,749,032 | \$ 83,140 | \$ 84,232 | \$ 140,921 | \$ 13,135,020 |
| 1,551,809 | 1,665,262 | 102,129 | 106,304 | 105,884 | 11,949,018 |
| 1,408,679 | 1,610,098 | 98,784 | 85,022 | 153,531 | 9,962,893 |
| 1,401,461 | 1,523,533 | 113,843 | 97,066 | 206,826 | 9,709,311 |
| 1,494,641 | 1,496,970 | 114,722 | 80,493 | 218,961 | 8,517,879 |
| 1,425,274 | 1,445,993 | 118,392 | 237,937 | 174,125 | 7,885,534 |
| 1,340,095 | 1,519,691 | 129,314 | 64,409 | 182,912 | 7,568,327 |
| 1,687,773 | 1,512,217 | 64,685 | 106,001 | 30,045 | 8,197,378 |
| 1,431,693 | 1,348,759 | 144,228 | 63,400 | 12,013 | 6,914,716 |
| 1,253,388 | 1,434,673 | 108,373 | 102,263 | 19,941 | 6,275,576 |

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

| <u>Fiscal Year</u> | | <u>General Administration</u> | <u>Public Safety</u> | <u>Public Works</u> | <u>Parks, Recreation, and Cultural</u> | <u>Health and Welfare</u> | <u>Community Development</u> |
|--------------------|-----|-------------------------------|----------------------|---------------------|--|---------------------------|------------------------------|
| 2014-15 | \$ | 1,187,260 | \$ 1,831,707 | \$ 1,233,692 | \$ 189,781 | \$ 10,265 | \$ 54,697 |
| 2013-14 | | 1,723,984 | 1,904,039 | 1,102,228 | 187,219 | 9,661 | 52,258 |
| 2012-13 | (2) | 606,615 | 1,761,297 | 1,577,705 | 160,335 | 9,399 | 55,221 |
| 2011-12 | | 512,375 | 1,705,800 | 1,058,820 | 174,114 | 9,272 | 40,116 |
| 2010-11 | | 735,357 | 1,678,911 | 982,633 | 43,115 | 7,305 | 27,500 |
| 2009-10 | | 652,316 | 1,637,784 | 1,238,459 | 33,150 | 6,971 | 35,085 |
| 2008-09 | | 691,506 | 1,634,834 | 1,078,850 | 37,984 | - | 16,352 |
| 2007-08 | | 579,956 | 1,604,696 | 1,071,799 | 41,378 | - | 28,697 |
| 2006-07 | | 437,281 | 1,511,221 | 1,534,847 | 37,718 | - | 33,024 |
| 2005-06 | | 427,685 | 1,220,361 | 1,302,674 | 36,844 | - | 23,490 |

(1) Includes General Fund

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

Table 3

| | <u>Debt Service</u> | | <u>Total</u> |
|----|-------------------------|----|--------------|
| \$ | 262,997 | \$ | 4,770,399 |
| | 236,181 | | 5,215,570 |
| | 265,796 | | 4,436,368 |
| | 282,187 | | 3,782,684 |
| | 288,894 | | 3,763,715 |
| | 368,196 | | 3,971,961 |
| | 390,146 | | 3,849,672 |
| | 424,630 | | 3,751,156 |
| | 417,798 | | 3,971,889 |
| | 420,071 | | 3,431,125 |

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, and Regulatory Licenses | Fines and Forfeitures | Revenue from the Use of Money and Property | Miscellaneous |
|-------------|------------------------|-------------------|--|-----------------------|--|---------------|
| 2014-15 | \$ 1,660,060 | \$ 1,749,032 | \$ 8,504 | \$ 41,521 | \$ 59,172 | \$ 70,403 |
| 2013-14 | 1,539,495 | 1,665,262 | 16,316 | 28,982 | 65,900 | 57,458 |
| 2012-13 | 1,416,634 | 1,614,343 | 9,065 | 34,780 | 67,610 | 83,481 |
| 2011-12 | 1,428,349 | 1,525,357 | 11,351 | 28,967 | 72,216 | 57,580 |
| 2010-11 | 1,509,841 | 1,501,187 | 13,715 | 32,715 | 71,389 | 85,346 |
| 2009-10 | 1,415,092 | 1,450,138 | 11,546 | 39,905 | 73,415 | 123,349 |
| 2008-09 | 1,456,136 | 1,515,840 | 12,155 | 44,711 | 57,375 | 56,319 |
| 2007-08 | 1,497,703 | 1,370,882 | 25,761 | 39,571 | 46,080 | 83,697 |
| 2006-07 | 1,436,157 | 1,207,590 | 23,989 | 53,809 | 58,975 | 56,770 |
| 2005-06 | 1,300,615 | 1,193,420 | 54,227 | 54,860 | 65,009 | 55,754 |

(1) Includes General Fund

Table 4

| Charges for Services | Inter- governmental | Total |
|----------------------------|------------------------|--------------|
| \$ 53,954 | \$ 1,550,067 | \$ 5,192,713 |
| 57,706 | 1,845,654 | 5,276,773 |
| 57,886 | 958,762 | 4,242,561 |
| 70,523 | 826,612 | 4,020,955 |
| - | 819,603 | 4,033,238 |
| - | 831,529 | 3,944,974 |
| - | 772,022 | 3,914,558 |
| - | 715,166 | 3,778,860 |
| - | 679,646 | 3,516,936 |
| - | 651,095 | 3,374,980 |

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

Table 5

| Fiscal Year | Total Tax Levy (1,2,3) | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years (1) (2) | Total Collections to Date | |
|-------------|------------------------|--|---------------------------|---|---------------------------|---|
| | | Current Tax Collections (1,3) | Percent of Levy Collected | | Total Tax Collections | Percentage of Collections to Tax Levy (4) |
| 2014-15 | \$ 1,612,273 | \$ 1,567,292 | 97.21% | \$ - | \$ 1,567,292 | 97.21% |
| 2013-14 | 1,615,808 | 1,571,938 | 97.28% | 26,516 | 1,598,454 | 98.93% |
| 2012-13 | 1,510,934 | 1,480,446 | 97.98% | 20,300 | 1,500,746 | 99.33% |
| 2011-12 | 1,539,343 | 1,455,015 | 94.52% | 77,139 | 1,532,154 | 99.53% |
| 2010-11 | 1,597,836 | 1,517,593 | 94.98% | 72,134 | 1,589,727 | 99.49% |
| 2009-10 | 1,520,815 | 1,433,595 | 94.26% | 85,569 | 1,519,164 | 99.89% |
| 2008-09 | 1,570,074 | 1,492,353 | 95.05% | 76,299 | 1,568,652 | 99.91% |
| 2007-08 | 1,754,568 | 1,592,494 | 90.76% | 161,343 | 1,753,837 | 99.96% |
| 2006-07 | 1,610,384 | 1,566,569 | 97.28% | 43,409 | 1,609,978 | 99.97% |
| 2005-06 | 1,460,119 | 1,409,165 | 96.51% | 50,781 | 1,459,946 | 99.99% |

(1) Exclusive of penalties

(2) Does not include land redemptions

(3) Includes Commonwealth of Virginia PPTRA Reimbursement

(4) Does not include supplements and abatements-only original tax levy

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

Table 6

| Fiscal Year | | | | Machinery and Tools | Public Service Corporation (1) | | Total | Assessed vs Fair Market Value | | | | | |
|----------------|----------------|----------------------|----|---------------------------|--------------------------------|--------|-------|-------------------------------------|----|---|----|---------|---------|
| | Real Estate | Personal Property | | Real Estate | Personal Property | | | | | | | | |
| 2014-15 | \$ | 606,784 | \$ | 43,443 | \$ | 30,369 | \$ | 21,544 | \$ | - | \$ | 702,140 | 100.00% |
| 2013-14 | | 604,013 | | 43,492 | | 32,588 | | 21,201 | | - | | 701,294 | 100.00% |
| 2012-13 | | 555,327 | | 40,461 | | 17,530 | | 20,076 | | - | | 633,394 | 100.00% |
| 2011-12 | | 552,866 | | 40,134 | | 21,105 | | 22,843 | | - | | 636,948 | 100.00% |
| 2010-11 | | 550,613 | | 39,038 | | 28,703 | | 22,845 | | - | | 641,199 | 100.00% |
| 2009-10 | | 547,258 | | 38,159 | | 23,230 | | 18,028 | | - | | 626,675 | 100.00% |
| 2008-09 | | 548,653 | | 40,501 | | 25,724 | | 14,725 | | - | | 629,603 | 100.00% |
| 2007-08 | | 532,774 | | 40,489 | | 33,915 | | 15,116 | | - | | 622,294 | 100.00% |
| 2006-07 | | 508,810 | | 36,358 | | 42,576 | | 16,819 | | - | | 604,563 | 100.00% |
| 2005-06 | | 386,858 | | 31,324 | | 39,701 | | 12,091 | | - | | 469,974 | 100.00% |

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

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

Table 7

| Fiscal Year | Real Estate | Personal Property | Machinery & Tools |
|----------------|-------------|----------------------|----------------------|
| 2014-15 | \$ 0.16 | \$ 1.11 | \$ 0.86 |
| 2013-14 | 0.16 | 1.11 | 0.86 |
| 2012-13 | 0.16 | 1.11 | 0.86 |
| 2011-12 | 0.16 | 1.11 | 0.86 |
| 2010-11 | 0.16 | 1.11 | 0.86 |
| 2009-10 | 0.16 | 1.11 | 0.86 |
| 2008-09 | 0.16 | 1.11 | 0.86 |
| 2007-08 | 0.16 | 1.11 | 0.86 |
| 2006-07 | 0.16 | 1.11 | 0.86 |
| 2005-06 | 0.22/0.16 | 1.11 | 0.86 |

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

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

Town of Strasburg, Virginia
Principal Taxpayers
At June 30, 2015

Table 8

| Taxpayer | Type of Business | 2015 Assessed Valuation | % of Total Assessed Valuation |
|-------------------------------|-----------------------------|--|--|
| North Shenandoah Investors | Rental Property/Commercial | \$ 20,596,500 | 26% |
| 294 Front Royal LLC | Manufacturing | 11,454,700 | 14% |
| King Plumbing and Heating Inc | Rental Property/Commercial | 11,119,900 | 14% |
| IAC Strasburg LLC | Manufacturing | 8,763,800 | 11% |
| Homewood Retirement | Rental Property | 6,477,600 | 8% |
| Massanutten Elderly LLC | Rental Property | 5,037,500 | 6% |
| Toothmen Investments | Rental Property/Real Estate | 4,939,400 | 6% |
| SEI Property LLC | Rental Property/Real Estate | 4,547,700 | 6% |
| Sunlight Properties | Rental Property/Real Estate | 3,464,400 | 4% |
| Terry M. Dellinger | Rental Property/Commercial | 3,417,000 | 4% |
| | Total | \$ <u>79,818,500</u> | |

Town of Strasburg, Virginia
Computation of Legal Debt Margin
For the Fiscal Year Ended June 30, 2015
(in thousands)

Table 9

| | | | |
|---|----|-----------------|----------------------|
| Total assessed value of taxed real property | | \$ | 606,784 |
| Debt limit-10 percent of assessed value | | \$ | 60,678 |
| Amount of debt applicable to limit | | | |
| Gross debt | \$ | 21,447 | |
| Less: Water and sewer revenue bonds | | <u>(20,154)</u> | |
| | | \$ | <u>1,293</u> |
| Legal debt margin | | \$ | <u><u>59,385</u></u> |

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of the Town Council Town of Strasburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Strasburg, Virginia's basic financial statements, and have issued our report thereon dated November 25, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
November 25, 2015

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

**To the Honorable Members of the Town Council
Town of Strasburg, Virginia**

Report on Compliance for Each Major Federal Program

We have audited the 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 of the Town of Strasburg, Virginia's major federal programs for the year ended June 30, 2015. Town of Strasburg, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Strasburg, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Strasburg, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Strasburg, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town of Strasburg, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Strasburg, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
November 25, 2015

Town of Strasburg, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

| Federal Granting Agency/ Pass-through Agency/Program | Federal Catalog Number | Pass-through Entity Identifying Number | Total Federal Expenditures |
|---|---------------------------------------|---|---|
| <u>United States Department of Agriculture</u> | | | |
| Pass-through Payments: | | | |
| State Department of Environmental Quality: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | n/a | \$ 461,239 |
| <u>Environmental Protection Agency</u> | | | |
| Pass-through Payments: | | | |
| Department of Environmental Quality: | | | |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | n/a | 6,749,032 |
| <u>United States Department of Justice</u> | | | |
| Direct Payments | | | |
| Asset Forfeiture Proceeds | 16.000 | n/a | 82 |
| <u>United States Department of Homeland Security</u> | | | |
| Direct Payments | | | |
| Disaster Assistance Projects | 97.088 | n/a | 38,336 |
| <u>United States Department of Housing and Urban Development</u> | | | |
| Pass-through Payments: | | | |
| State Department of Housing and Community Development: | | | |
| Community Development Block Grant/State's Program and | | | |
| Non-entitlement Grants in Hawaii | 14.228 | n/a | 376,087 |
| <u>United States Department of Transportation, National Highway Traffic Safety</u> | | | |
| <u>Administration</u> | | | |
| Pass-through Payments: | | | |
| State Department of Transportation: | | | |
| Alcohol Impaired Driving Countermeasures Incentive Grants | 20.601 | n/a | 6,601 |
| Highway Planning and Construction | 20.205 | n/a | 465,676 |
| Total Department of Transportation-pass through payments | | | \$ 472,277 |
| Total Expenditures of Federal Awards | | | \$ 8,097,053 |

Town of Strasburg, Virginia

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

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, 2015. The Town's reporting entity is defined in note 1(A) of the Town's notes to financial statements.

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

B. Basis of Presentation:

The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, 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 \$4,579,136.

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.

| | |
|--------------------------|---------------------|
| Primary government: | |
| Governmental funds | \$ 886,782 |
| Proprietary funds | 2,631,135 |
| Reconciling items: | |
| VRA loan proceeds | 4,579,136 |
| Total primary government | <u>\$ 8,097,053</u> |

Town of Strasburg, Virginia
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

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: unmodified

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

| | | |
|--------|-------|---|
| 66.458 | | Capitalization Grants for Clean Water State Revolving Funds |
| | | Community Development Block Grant/State's Program and |
| 14.228 | | Non-entitlement Grants in Hawaii |
| 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 of Prior Year Findings

There were no prior year findings.