

**TOWN OF BROADWAY, VIRGINIA**  
**FINANCIAL AND COMPLIANCE REPORTS**  
**JUNE 30, 2013**

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Town Council  
Town of Broadway  
Broadway, VA 22815

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Broadway, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Broadway'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the fiduciary fund of the Town of Broadway, Virginia, as of June 30, 2013, 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.

**Other Matters***Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Broadway's basic financial statements. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Town of Broadway'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 Broadway's internal control over financial reporting and compliance.

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

Our discussion and analysis of the Town of Broadway's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2013. Please read it in conjunction with the Town's financial statements, which begin on page 12.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Town exceeded its liabilities by \$14,014,058 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. The net position of the business-type activities increased by \$287,716, and the net position of the governmental activities increased by \$333,546.
- In the Town's business-type activities, operating revenues decreased by \$75,260 from the previous year while operating expenses decreased by \$157,378.
- In the Town's governmental activities, operating revenues increased by \$492,040 from the previous year while operating expenses increased by \$210,986.
- Actual revenues were \$34,750 more than budgeted for the General Fund. General Fund expenditures were \$109,356 less than budgeted.
- Operating revenues were \$15,061 more than budgeted for the Water Fund. Water Fund operating expenses, excluding depreciation, were \$35,357 more than budgeted.
- Operating revenues were \$350,528 less than budgeted for the Sewer Fund. Sewer Fund operating expenses, excluding depreciation and amortization, were \$255,962 less than budgeted. In addition, interest expense was \$53,022 less than budgeted.
- The Town added \$786,476 in capital additions during the current fiscal year.
- The Town's long-term debt decreased by \$491,069 during the current fiscal year.

### **USING THIS ANNUAL REPORT**

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

## Reporting the Town as a Whole

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

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

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

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

## Reporting the Town's Most Significant Funds

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

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

## THE TOWN AS TRUSTEE

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

## THE TOWN AS A WHOLE

The Town's *combined* net position changed modestly from a year ago – *increasing* from \$13,392,796 to \$14,014,058. During the year, the net position of the governmental activities increased by 14.11 percent and business-type activities increased by 2.61 percent. Below is a summary of the net position as of June 30, 2013 and 2012.

### NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 675,570	\$ 626,823	\$ 1,308,082	\$ 1,298,916	\$ 1,983,652	\$ 1,925,739
Capital assets	<u>3,161,425</u>	<u>2,850,234</u>	<u>19,970,616</u>	<u>20,194,489</u>	<u>23,132,041</u>	<u>23,044,723</u>
Total assets	<u>\$ 3,836,995</u>	<u>\$ 3,477,057</u>	<u>\$ 21,278,698</u>	<u>\$21,493,405</u>	<u>\$ 25,115,693</u>	<u>\$ 24,970,462</u>
Long-term liabilities	\$ 472,609	\$ 500,000	\$ 9,750,766	\$10,214,444	\$ 10,223,375	\$ 10,714,444
Other liabilities	<u>667,068</u>	<u>613,285</u>	<u>211,192</u>	<u>249,937</u>	<u>878,260</u>	<u>863,222</u>
Total liabilities	<u>\$ 1,139,677</u>	<u>\$ 1,113,285</u>	<u>\$ 9,961,958</u>	<u>\$10,464,381</u>	<u>\$ 11,101,635</u>	<u>\$ 11,577,666</u>
Net position:						
Net investment in capital assets	\$ 2,702,865	\$ 2,365,292	\$ 10,265,718	\$10,029,013	\$ 12,968,583	\$ 12,394,305
Unrestricted	<u>(5,547)</u>	<u>(1,520)</u>	<u>1,051,022</u>	<u>1,000,011</u>	<u>1,045,475</u>	<u>998,491</u>
Total net position	<u>\$ 2,697,318</u>	<u>\$ 2,363,772</u>	<u>\$ 11,316,740</u>	<u>\$11,029,024</u>	<u>\$ 14,014,058</u>	<u>\$ 13,392,796</u>

The largest portion of the Town's net position (92.5 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position (\$1,045,475) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2013 and 2012.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
Charges for services	\$ 318,228	\$ 244,582	\$ 3,092,644	\$ 3,152,063	\$ 3,410,872	\$ 3,396,645
General property taxes	275,671	267,836	-	-	275,671	267,836
Other local taxes	633,281	558,956	-	-	633,281	558,956
Intergovernmental	533,681	199,813	-	-	533,681	199,813
Miscellaneous	<u>4,035</u>	<u>1,669</u>	<u>24,399</u>	<u>40,240</u>	<u>28,434</u>	<u>41,909</u>
Total revenues	<u>\$ 1,764,896</u>	<u>\$ 1,272,856</u>	<u>\$ 3,117,043</u>	<u>\$ 3,192,303</u>	<u>\$ 4,881,939</u>	<u>\$ 4,465,159</u>

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Program expenses</b>						
General government	\$ 376,276	\$ 378,338	\$ -	\$ -	\$ 376,276	\$ 378,338
Public safety	399,967	373,666	-	-	399,967	373,666
Public works	466,795	264,028	-	-	466,795	264,028
Cultural and recreation	131,022	133,891	-	-	131,022	133,891
Community development	13,306	26,457	-	-	13,306	26,457
Other	-	-	110	2,764	110	2,764
Water	-	-	573,864	561,924	573,864	561,924
Sewer	-	-	2,006,894	2,173,558	2,006,894	2,173,558
Total expenses	<u>\$ 1,387,366</u>	<u>\$ 1,176,380</u>	<u>\$ 2,580,868</u>	<u>\$ 2,738,246</u>	<u>\$ 3,968,234</u>	<u>\$ 3,914,626</u>
Operating income	<u>\$ 377,530</u>	<u>\$ 96,476</u>	<u>\$ 536,175</u>	<u>\$ 454,057</u>	<u>\$ 913,705</u>	<u>\$ 550,533</u>
<b>Nonoperating</b>						
Interest income	\$ 1,451	\$ 4,045	\$ 4,850	\$ 13,667	\$ 6,301	\$ 17,712
Rental income	13,875	5,000	35,707	33,959	49,582	38,959
Spring lease	-	-	(5,000)	(5,000)	(5,000)	(5,000)
Interest expense	(14,081)	-	(332,078)	(398,752)	(346,159)	(398,752)
Total nonoperating	<u>\$ 1,245</u>	<u>\$ 9,045</u>	<u>\$ (296,521)</u>	<u>\$ (356,126)</u>	<u>\$ (295,276)</u>	<u>\$ (347,081)</u>
Income before contributions and transfers	\$ 378,775	\$ 105,521	\$ 239,654	\$ 97,931	\$ 618,429	\$ 203,452
<b>Contributions</b>	2,877	10,000	-	46,159	2,877	56,159
<b>Transfers</b>	<u>(48,106)</u>	<u>1,182,346</u>	<u>48,062</u>	<u>(1,182,346)</u>	<u>(44)</u>	<u>-</u>
<b>Change in net position</b>	<u>\$ 333,546</u>	<u>\$ 1,297,867</u>	<u>\$ 287,716</u>	<u>\$ (1,038,256)</u>	<u>\$ 621,262</u>	<u>\$ 259,611</u>

The Town's total revenues increased by \$416,780 (9.3 percent), while the total cost of all programs and services increased by \$53,608 (1.4 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

### Governmental Activities

Operating revenues for the Town's governmental activities increased by \$492,040 (38.6 percent) while operating expenses increased by \$210,986 (17.9 percent). The factors driving these results include:

#### Revenues

- *Charges for services* overall increased by \$73,646. The most significant increases within this category were for public works which increased by \$78,704, mainly due to a bond forfeiture received for the Coyote Run improvements that began in the current fiscal year.
- *General property taxes* increased by \$7,835. Personal property taxes increased by \$6,924 due to a slightly higher taxable value of machinery and tools.
- *Other local taxes* increased by \$74,325. The most significant increase within this category was for cigarette tax which increased \$45,005. The cigarette tax was implemented in FY 2013. The local sales and use tax also contributed to the increase by \$13,015.
- *Intergovernmental revenues* increased by \$333,868. The Town received Highway Maintenance Funds for \$390,273 for Town road maintenance in FY 2013. The Rural Business Enterprise Grant was reduced by \$28,240 from the prior year amount. The Energy Conservation Grant was received in the prior year (\$22,000) but not in the current year.



Expenses

- *Public safety* overall increased by \$26,301. The most significant increases were for police salaries, payroll taxes and employee benefits which increased by \$29,653. The police department added a full-time employee in the current year.
- *Public works* overall increased by \$202,767. Street maintenance increased by \$99,522 due to the Town's assuming maintenance responsibility of all secondary streets as of July 1, 2012. Expenditures such as salaries and payroll taxes were additional increases of \$89,679 due to shifting a portion of salaries from the government administration to highway.
- *Cultural and recreation* overall decreased by \$2,869. The most significant decreases were for utilities and fuel (\$3,642). This was due to decreased usage of the Park.
- *Community development* overall decreased by \$13,151. This was due to the Town's making fewer donations because groups did more of their own fundraising.

Other

- *Interest expense* increased by \$14,081. The Town began making payments on the 2012 bonds in the current fiscal year.
- *Contributions* decreased by \$7,123. This decrease was due to the donation of funds made in the prior year to purchase land for a Farmers' Market.

**Business-Type Activities**

Operating revenues for the Town's business-type activities decreased by \$75,260 (2.3 percent) and operating expenses decreased by \$157,378 (5.7 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* decreased by \$75,260. Much of this decrease can be attributed to sludge revenue's decreasing by \$204,140. This is a result of excess sludge from a one-time removal in the previous fiscal year. Conversely, wastewater contracts and water services increased by \$95,352, mostly due to the rates increasing. Also, water and sewer connections increased by \$52,500.

Expenses

- *Water and sewer expenses* decreased overall by \$157,378. The largest decrease in expenses was due to the sludge that was a one-time item required to meet state regulations in the previous year (\$237,753). However, the salaries, payroll taxes and employee benefits increased by \$44,765, due to additional part-time employee wages in the current year. Other changes included lab testing in the Sewer Fund and a water feasibility study in the Water Fund, increasing by \$17,684 and \$11,164, respectively.

The Town's business-type activities also included decreases in interest expense of \$66,674. Interest expense decreased as scheduled loan payments began to reduce the principal balance of the debt. In addition, the Town refinanced a loan with the Virginia Resources Authority on October 5, 2012, at a lower interest rate.

## THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 14) reported a fund balance of \$ - , which is the same as last year

The primary reasons for the General Fund's increase mirror the changes noted in the previous section under "governmental" activities plus changes for capital outlay and transfers from other funds. During the year, the Town disbursed \$440,387 on capital outlay. This was a decrease of \$66,037 over the prior year. In addition, the Town transferred \$82,111 from its Water Fund to resolve a negative fund balance in the General Fund.

As the Town completed the year, its proprietary funds (as presented in the statements of net position on pages 18 and 19) reported net position of \$11,316,740, which is an increase of \$287,716 over last year's total of \$11,029,024. Significant changes in the change in net position are noted in the previous section under "business-type" activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Increased highway funding and expenditures
- Grant funding for Farmers' Market lot and expenditures
- Curtain work at the Wastewater Treatment Facility that was performed last July and August

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

<u>Account</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>	
Federal grants\$	(68,066)
General property taxes	44,044
Other local taxes	35,781
Charges for services	17,182
<b>Expenditures</b>	
<i>General Government Administration</i>	
Capital outlay	\$ 75,013
Salaries and wages	35,826
<i>Public Safety</i>	
Salaries and wages	(14,695)
Vehicle maintenance	(6,978)
<i>Public Works</i>	
Salaries and wages	(83,654)
Payroll taxes	(6,025)
Street maintenance	289,837
Capital outlay	(205,971)
<i>Cultural &amp; Recreation</i>	
Park operating expense	(5,403)
Capital outlay	22,550
<i>Community Development</i>	
Economic development	12,837

Actual revenues were \$34,750 more than budgeted. General property taxes increased more than expected due to an increase in taxable machinery and tools. Other local taxes were higher than the budget due to better than expected revenues from sales and use (\$15,927) and cigarette tax (\$10,005). The positive variance in charges for services was due to increased trash collections and the park revenue's having no change in the last several budgets. Also, a significant portion of a Federal grant budgeted in FY 2013, was received in the prior year, resulting in a negative variance in the current year.

Actual expenditures were \$109,356 less than budgeted. On July 1, 2012, the Town assumed responsibility to maintain the secondary streets. The Town budgeted all street maintenance related expenditures under one line item, street maintenance. Actual expenditures for street maintenance included costs reported under the following line items: street maintenance, capital outlay, and salaries and benefits. Overall, the Town budgeted more for street maintenance expenses than anticipated. The negative variance in public safety salaries and wages was due to the addition of a full-time employee that previously worked part-time for the Town.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2013, the Town had \$23.13 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water and sewer systems. (See table below.) This represents a net increase of \$87,318, or 0.4 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 903,191	\$ 903,191	\$ 143,397	\$ 143,397	\$ 1,046,588	\$ 1,046,588
Buildings	731,000	684,848	-	-	731,000	684,848
Equipment	117,918	83,702	441,304	492,696	559,222	576,398
Infrastructure	846,529	583,829	-	-	846,529	583,829
Utility system	-	-	19,385,915	19,558,396	19,385,915	19,558,396
Park and improvements	562,787	594,664	-	-	562,787	594,664
Totals	<u>\$ 3,161,425</u>	<u>\$ 2,850,234</u>	<u>\$ 19,970,616</u>	<u>\$ 20,194,489</u>	<u>\$ 23,132,041</u>	<u>\$ 23,044,723</u>

This year's major additions included:

Baffle Project for WWTF	\$ 254,862
Farmers' Market	194,987
Coyote Run Subdivision improvements	79,906
2012 Ford F450	59,035
Salt shed	38,676
Police Department renovations	29,342
Springbrook sidewalk project	18,675
Wire for irrigation pipes	13,220
Kubota utility vehicle	12,200
	<u>\$ 700,903</u>

**Debt**

At year-end, the Town had \$10,223,375 in outstanding loans compared to \$10,714,444 last year. This is a decrease of 4.6 percent as shown in the following tables.

**Governmental Activities**

	<b>Outstanding June 30,</b>	
	<b>2013</b>	<b>2012</b>
Branch Banking & Trust, series 2012A bond	\$ 330,826	\$ 350,000
Branch Banking & Trust, series 2012B bond	<u>141,783</u>	<u>150,000</u>
	<u>\$ 472,609</u>	<u>\$ 500,000</u>

**Business-Type Activities**

	<b>Outstanding June 30,</b>	
	<b>2013</b>	<b>2012</b>
SunTrust Bond	\$ 250,000	\$ 300,000
Bonds payable (Virginia Resources Authority)	<u>9,500,766</u>	<u>9,914,444</u>
	<u>\$ 9,750,766</u>	<u>\$ 10,214,444</u>

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

The proposed budget for FY 2013-2014 is \$4,736,400 an increase of 3.3 percent over the previous year. The rise in the Town's budget is due to the increase in budgeted amounts of highway funding.

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

Tax rates remain at the same level as FY 2012-2013. Trash and recycling charges will increase by \$1.00 per month.

Parks revenue is projected to remain the same during FY 2013-2014. This function accounts for \$40,000 or 2.5 percent of the General Fund budget.

The Water Fund revenues are expected to increase 4.2 percent over last year. Connection fee revenues are expected to remain the same. A 3 percent increase to the water rates was necessary to offset rising costs and preparation for spring construction in the future. Expenses are expected to increase by 3.4 percent over the current year.

The Sewer Fund revenues are expected to decrease by 0.3 percent over the current year. The budget reflects the decline in sludge revenue due to greater efficiencies at the plant. Expenses are projected to increase by 0.3 percent over the current year.

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

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

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

## **Government-Wide Financial Statements**

## TOWN OF BROADWAY, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2013

----- Primary Government -----

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 166,509	\$ 669,114	\$ 835,623
Investments	114,233	51,953	166,186
Receivables, net of allowances for uncollectible amounts:			
Property taxes	316,303	-	316,303
Accounts and other	51,732	194,659	246,391
Internal balances	(298,127)	298,127	-
Note receivable, current portion	-	7,503	7,503
Inventory	12,744	40,469	53,213
Prepaid expenses	-	388	388
Capital assets:			
Non-depreciable	903,191	143,397	1,046,588
Depreciable, net of accumulated depreciation	2,258,234	19,827,219	22,085,453
Unamortized bond discount	-	36,695	36,695
Unamortized loan costs	14,049	9,174	23,223
<b>Total assets</b>	<u>\$ 3,538,868</u>	<u>\$ 21,278,698</u>	<u>\$ 24,817,566</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 44,154	\$ 48,285	\$ 92,439
Accrued liabilities	5,695	-	5,695
Accrued benefits	-	6,008	6,008
Connection fees payable	-	4,600	4,600
Accrued compensated absences	23,203	43,500	66,703
Accrued interest payable	899	78,022	78,921
Customer deposits	-	29,190	29,190
Deferred revenues, property taxes	294,990	-	294,990
Unearned revenue	-	1,587	1,587
Long-term liabilities:			
Due within one year	28,306	487,132	515,438
Due in more than one year	444,303	9,263,634	9,707,937
<b>Total liabilities</b>	<u>\$ 841,550</u>	<u>\$ 9,961,958</u>	<u>\$ 10,803,508</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 2,702,865	\$ 10,265,718	\$ 12,968,583
Unrestricted	(5,547)	1,051,022	1,045,475
<b>Total net assets</b>	<u>\$ 2,697,318</u>	<u>\$ 11,316,740</u>	<u>\$ 14,014,058</u>

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2013**

Functions/ Programs	Expenses	----- Program Revenues -----		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 376,276	\$ 4,070	\$ -	\$ 38,257
Public safety	399,967	6,946	71,616	-
Public works	466,795	256,753	390,273	-
Cultural and recreation	131,022	50,459	-	-
Community development	13,306	-	-	-
Interest on long-term debt	<u>14,081</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,401,447</u>	<u>\$ 318,228</u>	<u>\$ 461,889</u>	<u>\$ 38,257</u>
Business-type activities:				
Water	\$ 578,864	\$ 524,768	\$ -	\$ -
Sewer	2,338,972	2,627,972	-	-
RBEG	<u>110</u>	<u>10</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>\$ 2,917,946</u>	<u>\$ 3,152,750</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 4,319,393</u>	<u>\$ 3,470,978</u>	<u>\$ 461,889</u>	<u>\$ 38,257</u>

General revenues:

General property taxes

Other local taxes

Unrestricted revenue from the use of money and property

Grants and contributions not restricted to specific programs

Transfers

Miscellaneous

Total general revenues

Change in net position

Net position at beginning of year

Net position at end of year

See Notes to Financial Statements.



Net (Expense) Revenue and Changes in Net Position		
----- Primary Government -----		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (333,949)	\$ -	\$ (333,949)
(321,405)	-	(321,405)
180,231	-	180,231
(80,563)	-	(80,563)
(13,306)	-	(13,306)
<u>(14,081)</u>	<u>-</u>	<u>(14,081)</u>
<u>\$ (583,073)</u>	<u>\$ -</u>	<u>\$ (583,073)</u>
\$ -	\$ (54,096)	\$ (54,096)
-	289,000	289,000
<u>-</u>	<u>(100)</u>	<u>(100)</u>
<u>\$ -</u>	<u>\$ 234,804</u>	<u>\$ 234,804</u>
<u>\$ (583,073)</u>	<u>\$ 234,804</u>	<u>\$ (348,269)</u>
\$ 275,671	\$ -	\$ 275,671
633,281	-	633,281
15,326	4,850	20,176
36,412	-	36,412
(48,106)	48,062	(44)
<u>4,035</u>	<u>-</u>	<u>4,035</u>
<u>\$ 916,619</u>	<u>\$ 52,912</u>	<u>\$ 969,531</u>
\$ 333,546	\$ 287,716	\$ 621,262
<u>2,363,772</u>	<u>11,029,024</u>	<u>13,392,796</u>
<u>\$ 2,697,318</u>	<u>\$ 11,316,740</u>	<u>\$ 14,014,058</u>

## **Fund Financial Statements**

## TOWN OF BROADWAY, VIRGINIA

## ----GOVERNMENTAL FUND----

## BALANCE SHEET

June 30, 2013

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 166,509
Investments	114,233
Receivables (net of allowance for uncollectibles):	
Property taxes	316,303
Other taxes	22,750
Other	28,982
Inventory	<u>12,744</u>
<b>Total assets</b>	<u>\$ 661,521</u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 44,154
Due to other funds	298,127
Accrued liabilities	5,695
Deferred revenue, property taxes	<u>313,545</u>
<b>Total liabilities</b>	<u>\$ 661,521</u>
<b>Fund Balance</b>	
Nonspendable, inventory	\$ 12,744
Unassigned	<u>(12,744)</u>
<b>Total fund balance</b>	<u>\$ -</u>
<b>Total liabilities and fund balance</b>	<u>\$ 661,521</u>

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2013**

**FUND BALANCE-TOTAL GOVERNMENTAL FUND**

\$  
-

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

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

Governmental capital assets	\$ 3,942,956	
Less accumulated depreciation	<u>(781,531)</u>	3,161,425

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

Deferred revenue, property taxes	\$ <u>18,555</u>	18,555
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Certain liabilities are not payable from current financial resources and therefore are not reported in the governmental fund.

Accrued interest payable	\$ (899)	
Compensated absences	<u>(23,203)</u>	(24,102)

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

Bonds payable	\$ (472,609)	
Unamortized costs	<u>14,049</u>	<u>(458,560)</u>

**NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ 2,697,318

**See Notes to Financial Statements.**

**TOWN OF BROADWAY, VIRGINIA**  
**----GOVERNMENTAL FUND----**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2013**

	<u><b>General Fund</b></u>
<b>REVENUES</b>	
General property taxes	\$ 274,322
Other local taxes	633,281
Permits, privilege fees, and regulatory licenses	4,070
Fines and forfeitures	71,976
Revenue from the use of money and property	15,326
Charges for services	242,182
Miscellaneous	6,912
Intergovernmental revenues:	
Commonwealth	495,747
Federal	<u>37,934</u>
Total revenues	<u>\$ 1,781,750</u>
 <b>EXPENDITURES</b>	
General government administration	\$ 547,822
Public safety	409,182
Public works	629,858
Cultural and recreation	92,904
Community development	13,306
Debt service	<u>40,572</u>
Total expenditures	<u>\$ 1,733,644</u>
 Excess (deficiency) of revenues over expenditures	 <u>\$ 48,106</u>
 <b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	\$ 133,307
Transfers out	<u>(181,413)</u>
Total other financing sources (uses)	<u>\$ (48,106)</u>
 Net change in fund balance	 \$ -
 <b>FUND BALANCE AT BEGINNING OF YEAR</b>	 <u>-</u>
 <b>FUND BALANCE AT END OF YEAR</b>	 <u><u>\$ -</u></u>

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

## ----GOVERNMENTAL FUND----

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013**

**NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND** **\$**  
**-**

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

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

Expenditures for capital assets	\$ 440,387	
Less current year depreciation	<u>(129,195)</u>	311,192

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

Property taxes	\$ <u>1,350</u>	1,350
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in accrued interest	\$ (899)	
Change in long-term compensated absences	<u>(4,479)</u>	(5,378)

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

Bonds, repayment of principal	\$ 27,391	
Bond issuance costs, amortization	<u>(1,009)</u>	<u>26,382</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 333,546**

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

---- PROPRIETARY FUNDS ----  
**STATEMENTS OF NET POSITION**  
**June 30, 2013**

	----- Enterprise Funds -----			Total
	Water	Sewer	RBEG	Enterprise Funds
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 95,703	\$ 472,290	\$ 71,931	\$ 639,924
Restricted cash and cash equivalents, deposits	29,190	-	-	29,190
Investments	-	51,953	-	51,953
Accounts receivable	142,042	52,617	-	194,659
Due from other funds	1,900,130	-	-	1,900,130
Note receivable, current portion	-	-	7,503	7,503
Inventory	34,376	6,093	-	40,469
Prepaid expenses	-	388	-	388
Total current assets	<u>\$ 2,201,441</u>	<u>\$ 583,341</u>	<u>\$ 79,434</u>	<u>\$ 2,864,216</u>
Noncurrent assets:				
Capital assets:				
Land	\$ 63,842	\$ 79,555	\$ -	\$ 143,397
Utility plants, distribution and collection systems	3,377,411	19,474,461	-	22,851,872
Equipment	261,959	703,316	-	965,275
Less accumulated depreciation	(1,654,648)	(2,335,280)	-	(3,989,928)
Unamortized bond discount	-	36,695	-	36,695
Unamortized loan costs	-	9,174	-	9,174
Total noncurrent assets	<u>\$ 2,048,564</u>	<u>\$ 17,967,921</u>	<u>\$ -</u>	<u>\$ 20,016,485</u>
<b>Total assets</b>	<u>\$ 4,250,005</u>	<u>\$ 18,551,262</u>	<u>\$ 79,434</u>	<u>\$ 22,880,701</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 10,520	\$ 37,765	\$ -	\$ 48,285
Due to other funds	-	1,602,003	-	1,602,003
Connection fees payable	-	4,600	-	4,600
Accrued interest payable	-	78,022	-	78,022
Accrued benefits	1,945	4,063	-	6,008
Compensated absences	12,222	31,278	-	43,500
Deposits	29,190	-	-	29,190
Unearned revenue	1,587	-	-	1,587
Bonds, notes and loans payable	-	487,132	-	487,132
Total current liabilities	<u>\$ 55,464</u>	<u>\$ 2,244,863</u>	<u>\$ -</u>	<u>\$ 2,300,327</u>
Noncurrent liabilities:				
Bonds, notes and loans payable	<u>\$ -</u>	<u>\$ 9,263,634</u>	<u>\$ -</u>	<u>\$ 9,263,634</u>
Total noncurrent liabilities	<u>\$ -</u>	<u>\$ 9,263,634</u>	<u>\$ -</u>	<u>\$ 9,263,634</u>
<b>Total liabilities</b>	<u>\$ 55,464</u>	<u>\$ 11,508,497</u>	<u>\$ -</u>	<u>\$ 11,563,961</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

---- PROPRIETARY FUNDS ----  
 STATEMENTS OF NET POSITION  
 June 30, 2013

	----- Enterprise Funds -----			Total
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	<u>Enterprise Funds</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 2,048,564	\$ 8,217,154	\$ -	\$ 10,265,718
Unrestricted	<u>2,145,977</u>	<u>(1,174,389)</u>	<u>79,434</u>	<u>1,051,022</u>
<b>Total net position</b>	<u>\$ 4,194,541</u>	<u>\$ 7,042,765</u>	<u>\$ 79,434</u>	<u>\$ 11,316,740</u>

See Notes to Financial Statements.



## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION**  
Year Ended June 30, 2013

	----- Enterprise Funds -----			Total
	Water	Sewer	RBEG	Enterprise Funds
<b>OPERATING REVENUES</b>				
Wastewater contracts	\$ -	\$ 2,076,531	\$ -	\$ 2,076,531
Charges for services	404,087	316,560	-	720,647
Connection fees	74,000	76,100	-	150,100
Sludge revenue	-	145,356	-	145,356
Interest earned on loans	-	-	10	10
Miscellaneous	10,974	13,425	-	24,399
Total operating revenues	<u>\$ 489,061</u>	<u>\$ 2,627,972</u>	<u>\$ 10</u>	<u>\$ 3,117,043</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	\$ 227,200	\$ 347,999	\$ -	\$ 575,199
Employee benefits	50,599	95,705	-	146,304
Payroll taxes	16,495	23,922	-	40,417
Water purchase, Co-Op	30,218	-	-	30,218
Chemicals	35,587	298,392	-	333,979
Insurance	10,340	11,358	-	21,698
Lab testing	-	85,106	-	85,106
Miscellaneous	2,236	7,943	-	10,179
Postage	1,398	1,394	-	2,792
Professional fees	499	2,512	66	3,077
Repairs and maintenance	59,852	240,067	-	299,919
Supplies	2,458	3,746	-	6,204
Sludge removal	-	65,112	-	65,112
Utilities and fuel	29,564	364,888	-	394,452
Telephone	2,673	7,394	-	10,067
Vehicle maintenance	13,038	-	-	13,038
Bad debts	-	-	44	44
Amortization	-	2,560	-	2,560
Depreciation	91,707	448,796	-	540,503
Total operating expenses	<u>\$ 573,864</u>	<u>\$ 2,006,894</u>	<u>\$ 110</u>	<u>\$ 2,580,868</u>
Operating income (loss)	<u>\$ (84,803)</u>	<u>\$ 621,078</u>	<u>\$ (100)</u>	<u>\$ 536,175</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest earned	\$ 2,935	\$ 6,848	\$ 73	\$ 9,856
Rental income	35,707	-	-	35,707
Spring lease fees	(5,000)	-	-	(5,000)
Realized gain on investments	-	229	-	229
Unrealized (loss) on investments	-	(5,235)	-	(5,235)
Interest expense	-	(332,078)	-	(332,078)
Total nonoperating revenues (expenses)	<u>\$ 33,642</u>	<u>\$ (330,236)</u>	<u>\$ 73</u>	<u>\$ (296,521)</u>
Income (loss) before transfers	<u>\$ (51,161)</u>	<u>\$ 290,842</u>	<u>\$ (27)</u>	<u>\$ 239,654</u>

(Continued)

**TOWN OF BROADWAY, VIRGINIA**  
**---PROPRIETARY FUNDS---**  
**STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET POSITION**  
**Year Ended June 30, 2013**

	----- Enterprise Funds -----			Total
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	<u>Enterprise Funds</u>
<b>TRANSFERS</b>				
Transfers in	\$ 518,025	\$ 6,710	\$ 66	\$ 524,801
Transfers out	<u>(85,046)</u>	<u>(391,693)</u>	<u>-</u>	<u>(476,739)</u>
	<u>\$ 432,979</u>	<u>\$ (384,983)</u>	<u>\$ 66</u>	<u>\$ 48,062</u>
Change in net position	\$ 381,818	\$ (94,141)	\$ 39	\$ 287,716
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>3,812,723</u>	<u>7,136,906</u>	<u>79,395</u>	<u>11,029,024</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 4,194,541</u>	<u>\$ 7,042,765</u>	<u>\$ 79,434</u>	<u>\$ 11,316,740</u>

See Notes to Financial Statements.

## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF CASH FLOWS**  
**Year Ended June 30, 2013**

	----- Enterprise Funds -----			Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 481,387	\$ 2,635,010	\$ 10	\$ 3,116,407
Cash payments to suppliers of goods and services	(254,442)	(1,242,595)	(110)	(1,497,147)
Cash payments to employees	<u>(227,837)</u>	<u>(342,000)</u>	<u>-</u>	<u>(569,837)</u>
Net cash provided by (used in) operating activities	<u>\$ (892)</u>	<u>\$ 1,050,415</u>	<u>\$ (100)</u>	<u>\$ 1,049,423</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers from other funds	\$ 518,025	\$ 6,710	\$ 66	\$ 524,801
Operating transfers to other funds	(85,046)	(391,693)	-	(476,739)
Principal payments received on notes receivable	-	-	701	701
Advance from other funds	-	471,723	-	471,723
Advance to other funds	<u>(531,357)</u>	<u>-</u>	<u>-</u>	<u>(531,357)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ (98,378)</u>	<u>\$ 86,740</u>	<u>\$ 767</u>	<u>\$ (10,871)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	\$ (43,548)	\$ (302,541)	\$ -	\$ (346,089)
Rental income	35,707	-	-	35,707
Refund of engineering fees	-	30,000	-	30,000
Principal paid on bond and loans	-	(463,678)	-	(463,678)
Interest paid	-	(353,286)	-	(353,286)
Spring lease	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (12,841)</u>	<u>\$ (1,089,505)</u>	<u>\$ -</u>	<u>\$ (1,102,346)</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

---PROPRIETARY FUNDS---  
**STATEMENTS OF CASH FLOWS**  
**Year Ended June 30, 2013**

	----- Enterprise Funds -----			Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>RBEG</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest earned	\$ 2,935	\$ 6,848	\$ 73	\$ 9,856
Net cash provided by (used in) investing activities	\$ 2,935	\$ 6,848	\$ 73	\$ 9,856
Net increase (decrease) in cash and cash equivalents	\$ (109,176)	\$ 54,498	\$ 740	\$ (53,938)
<b>Cash and cash equivalents:</b>				
<b>Beginning</b>	<u>234,069</u>	<u>469,745</u>	<u>71,191</u>	<u>775,005</u>
<b>Ending</b>	<u>\$ 124,893</u>	<u>\$ 524,243</u>	<u>\$ 71,931</u>	<u>\$ 721,067</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO PROPRIETARY FUND BALANCE SHEETS</b>				
Unrestricted cash and cash equivalents	\$ 95,703	\$ 472,290	\$ 71,931	\$ 639,924
Restricted cash and cash equivalents, deposits	29,190	-	-	29,190
Investments	<u>-</u>	<u>51,953</u>	<u>-</u>	<u>51,953</u>
	<u>\$ 124,893</u>	<u>\$ 524,243</u>	<u>\$ 71,931</u>	<u>\$ 721,067</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (84,803)	\$ 621,078	\$ (100)	\$ 536,175
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Net (decrease) in the fair value of investments	-	(5,006)	-	(5,006)
Depreciation	91,707	448,796	-	540,503
Amortization	-	2,560	-	2,560
Change in assets and liabilities:				
(Increase) decrease in inventories	(2,313)	(3,382)	-	(5,695)
(Increase) decrease in accounts receivable	(8,614)	7,038	-	(1,576)
Increase (decrease) in accounts payable and accrued expenses	2,191	(20,669)	-	(18,478)
Increase (decrease) in deposits	<u>940</u>	<u>-</u>	<u>-</u>	<u>940</u>
Net cash provided by (used in) operating activities	<u>\$ (892)</u>	<u>\$ 1,050,415</u>	<u>\$ (100)</u>	<u>\$ 1,049,423</u>

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**----FIDUCIARY FUND----**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2013**

	<b><u>IDA</u></b> <b><u>Fund (Agency)</u></b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>79,460</u>
<b>Total assets</b>	<b>\$ <u>79,460</u></b>
<b>LIABILITIES</b>	
Amounts held for others	\$ <u>79,460</u>
<b>Total liabilities</b>	<b>\$ <u>79,460</u></b>

See Notes to Financial Statements.

**TOWN OF BROADWAY, VIRGINIA**  
**----FIDUCIARY FUND----**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**Year Ended June 30, 2013**

	<b><u>IDA</u></b> <b><u>Fund (Agency)</u></b>
<b>ADDITIONS</b>	
Fees (revenue)	\$ 28,000
Transfer in from other fund	<u>44</u>
Total additions	<u>\$ 28,044</u>
 <b>DEDUCTIONS</b>	
Meetings	\$ 1,700
Legal fees	1,037
Bank charges	<u>24</u>
Total deductions	<u>\$ 2,761</u>
 Change in net position	 \$ 25,283
 <b>NET POSITION AT BEGINNING OF YEAR</b>	  <u>54,177</u>
 <b>NET POSITION AT END OF YEAR</b>	  <u><u>\$ 79,460</u></u>

See Notes to Financial Statements.

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

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

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

**A. Reporting Entity**

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

**B. Governmental Accounting Standards**

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

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

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

#### Governmental Fund Financial Statements

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

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

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

#### Proprietary Fund Financial Statements

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



## NOTES TO FINANCIAL STATEMENTS

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

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

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

The Town reports the following major proprietary funds:

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

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

#### Fiduciary Fund Financial Statement

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

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

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

#### Cash and Cash Equivalents

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

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

## NOTES TO FINANCIAL STATEMENTS

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

The Town's investments are reported at fair value.

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

Receivables

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

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

Property Taxes

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

The taxes receivable balance at June 30, 2013, includes amounts not yet billed or received from the January 1, 2013, levy (due December 5, 2013). These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2014.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. There was no allowance at June 30, 2013.

Inventory

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

Prepaid Items

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

Interfund Receivables and Payables

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Fixed Assets

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

#### *Government-Wide Statements*

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

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

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

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

#### *Fund Financial Statements*

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

#### Unamortized Bond Discount

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

#### Unamortized Debt Issue Cost

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

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Long-Term Debt

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

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

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

#### Compensated Absences

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

#### Deferred Revenue

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

#### Equity Classifications

##### *Government-Wide Statements*

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

- a. Net investment in capital assets-consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position-consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These assets are reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted-all other net position is reported in this category.

## NOTES TO FINANCIAL STATEMENTS

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

#### *Fund Statements*

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

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

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

### F. Revenues, Expenditures, and Expenses

#### Governmental Fund Revenues

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

#### Operating Revenues and Expenses

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

#### Expenditures/Expenses

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Interfund Transfers

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

#### Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. There were no advertising costs in 2013.

#### Fringe benefits

Fringe benefits of the Town include:

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

### **G. Estimates and Assumptions**

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

### **H. Use of Restricted Resources**

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

### **I. Recently Issued and Adopted Accounting Pronouncement**

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for period beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the Town's financial statements.

## NOTES TO FINANCIAL STATEMENTS

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

In June, 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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

#### A. Budgetary Information

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

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. Amounts shown in the accompanying financial statements as "budget" represent the original and final operating budgets for the fiscal year 2013. The final operating budget for the General Fund included carryover funds of \$96,000.

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>WATER FUND</b>			
Capital outlay	\$ (54,000)	\$ (54,000)	\$ (43,548)
<b>SEWER FUND</b>			
Capital outlay	\$ (87,100)	\$ (342,100)	\$ (302,541)
Principal paid on bonds and loans	<u>(451,000)</u>	<u>(451,000)</u>	<u>(463,678)</u>
	<u>\$ (538,100)</u>	<u>\$ (793,100)</u>	<u>\$ (766,219)</u>

#### B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2013, General Fund expenditures exceeded appropriations in Public Safety by \$24,682, and Public Works by \$10,858. These over expenditures were funded by greater than expected revenues in the fund.

## NOTES TO FINANCIAL STATEMENTS

**Note 3. Deposits and Investments**Deposits

Below is a summary of the Town's accounts/deposits at June 30, 2013:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>General</u>		
Checking, Park (BB&T – Virginia)	\$ 24,579	\$ 24,579
Savings (BB&T – Virginia)	1,212	1,212
Certificates of deposit (L. M. Kohn)	140,598	140,598
Petty cash	120	-
<u>Water</u>		
Checking (BB&T – Virginia)	117,103	214,902
Checking (Farmers and Merchants Bank)	7,790	7,790
<u>Sewer</u>		
Certificates of deposit (L. M. Kohn)	472,290	472,290
<u>RBEG</u>		
Checking (BB&T – Virginia)	<u>71,931</u>	<u>71,931</u>
Total reporting entity	<u>\$ 835,623</u>	<u>\$ 933,302</u>

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50 percent to 130 percent of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

As of June 30, 2013, the Town had the following investment:

	<u>Fair Value</u>
Virginia State Treasurer's Local Government Investment Pool (LGIP)	<u>\$ 166,186</u>



## NOTES TO FINANCIAL STATEMENTS

**Note 3. Deposits and Investments (Continued)***Credit Risk*

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

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

**Note 4. Receivables**

Receivables as of June 30, 2013, for the government's individual major funds including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Business-Type		
	Activities	Activities	Total
Receivables:			
Property taxes	\$ 316,303	\$ -	\$ 316,303
Other taxes:			
Utilities tax	13,085	-	13,085
Meals tax	9,665	-	9,665
Accounts	<u>28,982</u>	<u>194,659</u>	<u>223,641</u>
Gross receivables	\$ 368,035	\$ 194,659	\$ 562,694
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 368,035</u>	<u>\$ 194,659</u>	<u>\$ 562,694</u>

**Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 903,191	\$ -	\$ -	\$ 903,191
Total capital assets not being depreciated	<u>\$ 903,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 903,191</u>
Capital assets being depreciated				
Buildings	\$ 853,947	\$ 68,018	\$ -	\$ 921,965
Park and improvements	737,901	2,451	-	740,352
Machinery and equipment	296,722	76,351	-	373,073
Infrastructure	<u>710,808</u>	<u>293,567</u>	<u>-</u>	<u>1,004,375</u>
Total capital assets being depreciated	<u>\$ 2,599,378</u>	<u>\$ 440,387</u>	<u>\$ -</u>	<u>\$ 3,039,765</u>

## NOTES TO FINANCIAL STATEMENTS

## Note 5. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Buildings	\$ 169,099	\$ 21,866	\$ -	\$ 190,965
Park and improvements	143,237	34,328	-	177,565
Machinery and equipment	213,020	42,135	-	255,155
Infrastructure	<u>126,979</u>	<u>30,867</u>	<u>-</u>	<u>157,846</u>
Total accumulated depreciation	\$ <u>652,335</u>	\$ <u>129,196</u>	\$ <u>-</u>	\$ <u>781,531</u>
Total capital assets being depreciated, net	\$ <u>1,947,043</u>	\$ <u>311,191</u>	\$ <u>-</u>	\$ <u>2,258,234</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ <u>2,850,234</u>	\$ <u>311,191</u>	\$ <u>-</u>	\$ <u>3,161,425</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ <u>143,397</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>143,397</u>
Total capital assets not being depreciated	\$ <u>143,397</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>143,397</u>
Capital assets being depreciated				
Utility system	\$ 22,580,304	\$ 301,568	\$ 30,000	\$ 22,851,872
Machinery and equipment	<u>920,752</u>	<u>44,523</u>	<u>-</u>	<u>965,275</u>
depreciated	\$ <u>23,501,056</u>	\$ <u>346,091</u>	\$ <u>30,000</u>	\$ <u>23,817,147</u>
Less accumulated depreciation for				
Utility system	\$ 3,021,908	\$ 444,049	\$ -	\$ 3,465,957
Machinery and equipment	<u>428,056</u>	<u>95,915</u>	<u>-</u>	<u>523,971</u>
Total accumulated depreciation	\$ <u>3,449,964</u>	\$ <u>539,964</u>	\$ <u>-</u>	\$ <u>-</u>
<u>3,989,928</u>				
Total capital assets being depreciated, net	\$ <u>20,051,092</u>	\$ <u>(193,873)</u>	\$ <u>30,000</u>	\$ <u>19,827,219</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ <u>20,194,489</u>	\$ <u>(193,873)</u>	\$ <u>(30,000)</u>	\$ <u>19,970,616</u>

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

**GOVERNMENTAL ACTIVITIES**

General government administration	\$ 19,862
Public safety	25,857
Public works	42,909
Cultural and recreation	<u>40,568</u>

        Total depreciation expense-governmental activities \$ 129,196

**BUSINESS-TYPE ACTIVITIES**

Water	\$ 91,707
Sewer	<u>448,257</u>

        Total depreciation expense-business-type activities \$ 539,964

## NOTES TO FINANCIAL STATEMENTS

**Note 6. Deferred & Unearned Revenue**

The following is a summary of deferred and unearned revenue by fund/activity at June 30, 2013:

**Fund Statements**

	<u>General Fund</u>
Property taxes billed in fiscal year 2014	\$ 294,990
Uncollected property tax billing	<u>18,555</u>
	<u>\$ 313,545</u>

**Government-Wide Statements**

	<u>Governmental Activities</u>
Property taxes billed in fiscal year 2014	<u>\$ 294,990</u>

**Note 7. Long-Term Debt**

A summary of long-term debt activity for the year ended June 30, 2013, is as follows. Additional detailed information is available on the following page.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<b><u>Government activities</u></b>					
<i>General Fund</i>					
Branch Banking & Trust (series 2012A bond)	\$ 350,000	\$ -	\$ (19,174)	\$ 330,826	\$ 19,814
Branch Banking & Trust (series 2012B bond)	<u>150,000</u>	<u>-</u>	<u>(8,217)</u>	<u>141,783</u>	<u>8,492</u>
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ (27,391)</u>	<u>\$ 472,609</u>	<u>\$ 28,306</u>
<b><u>Business-type activities</u></b>					
<i>Sewer Fund</i>					
Virginia Resources Authority (2007 loan)	\$ 2,205,000	\$ -	\$ (100,000)	\$ 2,105,000	\$ 100,000
Virginia Resources Authority (2009 loan)	7,709,444	-	(313,678)	7,395,766	337,132
SunTrust Bank (2010 loan)	<u>300,000</u>	<u>-</u>	<u>(50,000)</u>	<u>250,000</u>	<u>50,000</u>
	<u>\$ 10,214,444</u>	<u>\$ -</u>	<u>\$ (463,678)</u>	<u>\$ 9,750,766</u>	<u>\$ 487,132</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Long-Term Debt (Continued)

#### Government activities

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

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

#### Business-type activities

The Town signed a financing agreement with the Virginia Resources Authority on November 14, 2007. On December 13, 2007, the Town issued a general obligation water and sewer bond (series of 2007) in the amount of \$2,555,000. As part of the financing agreement, the Town sold the local bond to the U. S. Bank (trustee for Virginia Resources Authority) for \$2,555,000. Proceeds from the bond were used to pay off the interim financing for the wastewater treatment facility. Annual principal payments on the bond commenced on October 1, 2008, and will continue through October 1, 2027. The initial principal payment begins at \$80,000 and will increase in intervals of up to \$15,000 until the final principal payment of \$195,000. In addition to the annual principal payment, the Town is making semi-annual interest payments on the outstanding balance at a rate between 3.7 percent and 5.036 percent. If necessary to make payments, the Town can levy an *ad valorem* tax without limitation as to rate or amount on all property in the Town subject to taxation. The Town also pledges on the bond, its full faith and credit and revenues of its water and sewer system. As of June 30, 2013, \$450,000 has been applied against the principal portion of the loan. Total interest expense incurred on the loan for the year ended June 30, 2013, was \$101,674.

The Town signed a financing agreement with the Virginia Resources Authority on December 4, 2007. The financing agreement committed \$3,433,536 from the Virginia Revolving Loan Fund to the Town for use towards expansion of the wastewater treatment facility. On December 9, 2008, that commitment was increased to \$8,000,000. On October 5, 2012, the Town refinanced \$7,560,286, the current bond balance, with the Virginia Resources Authority. Semi-annual payments on the bond commenced on April 1, 2013, in the amount of \$265,450 each, including interest at 2.65 percent. The bond matures October 1, 2030. If necessary to make payments, the Town can levy an *ad valorem* tax, sufficient to pay the principal cost of funds, on all property in the Town subject to taxation. The Town also pledges its full faith and credit and revenues of its water and sewer system. Total interest expense incurred on the loan for the year ended June 30, 2013, was \$237,772.

The Town signed a financing agreement with SunTrust Bank on February 22, 2010. Proceeds from this general obligation bond (series 2010) were used to fund the installation of an outfall line from the wastewater treatment facility. Annual principal payments on the bond commence on February 18, 2011, at the sum of \$50,000 each, and will continue through February 18, 2018. In addition to the annual principal payments, the Town is making semi-annual interest payments on the outstanding balance at a rate of 4.53 percent. If necessary to make payments, the Town can levy an *ad valorem* tax without limitation as to rate or amount on all property in the Town subject to taxation. The Town also pledges on the bond, its full faith and credit and revenues of its water and sewer system. Total interest expense incurred on the loan for the year ended June 30, 2013, was \$13,559.

## NOTES TO FINANCIAL STATEMENTS

**Note 7. Long-Term Debt (Continued)**

Annual requirements to amortize long-term debt and related interest at June 30, 2013, are as follows:

***Governmental-Type Activities***

Year Ending June 30	Branch Banking & Trust (Series 2012A bond)		Branch Banking & Trust (Series 2012B bond)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 19,814	\$ 8,587	\$ 8,492	\$ 3,680	\$ 28,306	\$ 12,267
2015	20,339	8,062	8,717	3,455	29,056	11,517
2016	20,879	7,522	8,948	3,224	29,827	10,746
2017	21,433	6,968	9,186	2,986	30,619	9,954
2018	22,002	6,399	9,429	2,743	31,431	9,142
2019 - 2023	119,081	22,923	51,035	9,824	170,116	32,747
2024 - 2027	<u>107,278</u>	<u>6,452</u>	<u>45,976</u>	<u>2,765</u>	<u>153,254</u>	<u>9,217</u>
	<u>\$ 330,826</u>	<u>\$ 66,913</u>	<u>\$ 141,783</u>	<u>\$ 28,677</u>	<u>\$ 472,609</u>	<u>\$ 95,590</u>

***Business-Type Activities***

Year Ending June 30	Virginia Resources Authority (2007 loan)		SunTrust (2010 loan)		Virginia Resources Authority (2009 loan)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 100,000	\$ 97,776	\$ 50,000	\$ 11,325	\$ 337,132	\$ 193,769	\$ 487,132	\$ 302,870
2015	105,000	93,659	50,000	9,060	346,125	184,776	501,125	287,495
2016	110,000	89,251	50,000	6,795	355,358	175,543	515,358	271,589
2017	115,000	84,639	50,000	4,530	364,837	166,063	529,837	255,232
2018	120,000	79,799	50,000	2,265	374,570	156,331	544,570	238,395
2019 - 2023	685,000	310,021	-	-	2,028,164	626,339	2,713,164	936,360
2024 - 2028	870,000	115,463	-	-	2,313,498	341,005	3,183,498	456,468
2029 - 2030	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,276,082</u>	<u>51,169</u>	<u>1,276,082</u>	<u>51,169</u>
	<u>\$ 2,105,000</u>	<u>\$ 870,608</u>	<u>\$ 250,000</u>	<u>\$ 33,975</u>	<u>\$ 7,395,766</u>	<u>\$ 1,894,995</u>	<u>\$ 9,750,766</u>	<u>\$ 2,799,578</u>

**Note 8. Defined Benefit Pension Plan****Plan Description**

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension administered by the Virginia Retirement System. All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Defined Benefit Pension Plan (Continued)

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

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

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

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

#### Special Elected Benefit

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

## NOTES TO FINANCIAL STATEMENTS

**Note 8. Defined Benefit Pension Plan (Continued)**Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their compensation toward their retirement. The employer has assumed this 5 percent member contribution for employees hired prior to July 1, 2010. For employees hired after that date, the member contribution is a pre-tax salary reduction. In addition, the Town of Broadway, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town of Broadway's contribution rate for the fiscal year ended June 30, 2013, was 13.54 percent (excluding 5 percent member contribution) of the annual covered payroll.

Annual Pension Cost

For 2013, the Town's annual pension cost of \$115,731 for VRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.00 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs and (c) 2.50 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the Plan's assets is equal to the modified market value of assets. This method use techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, for the Unfunded Actuarial Accrued Liability (UAAL), was 20 years.

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$111,924	100%	\$ -
6/30/12	117,142	100%	-
6/30/13	115,731	100%	-

Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 63.36 percent funded. The actuarial accrued liability for benefits was \$2,819,019, and the actuarial value of assets was \$1,786,075, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,032,944. The covered payroll (annual payroll of active employees covered by the plan) was \$812,541, and the ratio of the UAAL to the covered payroll was 127.13 percent.

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

## NOTES TO FINANCIAL STATEMENTS

### Note. 9. Operating Lease Commitments

The Town receives rental income from three operating leases.

The Town leases land behind the wastewater treatment facility to a farmer on a year-to-year operating lease. This lease revenue is presented in the General Fund. The rents received from this lease during the fiscal year ended June 30, 2013, were \$13,875.

The Town leases its water tank to two communication companies under noncancelable operating leases for five years. The annual rents received from each lease are \$19,043 and \$16,664, respectively. Each lease has additional renewal terms. The companies use the tank to mount their antennas. The following is a schedule by years of future minimum rentals under the current terms of the leases:

<u>Year Ending June 30</u>	
2014	\$ 35,708
2015	35,708
2016	37,582
2017	38,207
2018	<u>39,159</u>
	<u>\$ 186,364</u>

The total rental income from these leases that is included in the Water Fund's statement of revenues and expenses for the year ended June 30, 2013, was \$35,707.

The Town leases a spring under a noncancelable operating lease. The lease calls for the Town to pay annual rent of \$5,000 until the time the Town begins withdrawing water. Once that occurs, the Town will pay annually the greater of \$5,000 or 5 cents for each 1,000 gallons withdrawn. The lease originated March, 2003, and runs for a period of 99 years. For the year ended June 30, 2013, lease expense in the Water Fund's statement of revenues and expenses was \$5,000.

### Note. 10. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

### Note 11. Revolving Lines of Credit

The Town has two revolving lines of credit with BB&T, one reported in the General Fund and the other in the Sewer Fund. Each line of credit had \$50,000 unused at June 30, 2013. Bank advances on the credit lines are payable on demand and carry interest at the bank's prime rate. The credit lines are secured by the full faith and credit of the Town.



## NOTES TO FINANCIAL STATEMENTS

**Note 12. Interfund Transfers**

Interfund transfers during the year ended June 30, 2013, are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 133,307	\$ 181,413
Water Fund	518,025	85,046
Sewer Fund	6,710	391,693
RBEG Fund	66	-
IDA Fund	44	-
	<u>\$ 658,152</u>	<u>\$ 658,152</u>

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

**Note 13. Interfund Balances**

Interfund balances at June 30, 2013, consisted of the following:

<u>Fund</u>	<u>Due From</u>			
	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Due to:				
General Fund	\$ -	\$ -	\$ -	\$ -
Water Fund	298,127	-	1,602,003	1,900,130
Sewer Fund	-	-	-	-
Total	<u>\$ 298,127</u>	<u>\$ -</u>	<u>\$ 1,602,003</u>	<u>\$ 1,900,130</u>

**Note 14. Major Customers**

The Town has three major wastewater customers. For the year ended June 30, 2013, the sewer revenues from these customers are as follows:

Pilgrims Pride Corporation	\$ 1,385,692
Cargill Corporation	264,220
Town of New Market	<u>314,697</u>
	<u>\$ 1,964,609</u>

Accounts receivable from these customers at June 30, 2013, are as follows:

Pilgrims Pride Corporation	\$ 5,500
Town of New Market	<u>29,099</u>
	<u>\$ 34,599</u>

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

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE-BUDGET AND ACTUAL**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>				
General property taxes	\$ 230,278	\$ 230,278	\$ 274,322	\$ 44,044
Other local taxes	597,500	597,500	633,281	35,781
Permits, privilege fees and regulatory license	2,000	2,000	4,070	2,070
Fines and forfeitures	5,000	70,000	71,976	1,976
Revenue from the use of money and property	18,500	18,500	15,326	(3,174)
Charges for services	225,000	225,000	242,182	17,182
Miscellaneous	2,000	2,000	6,912	4,912
Intergovernmental revenues:				
Commonwealth	365,722	495,722	495,747	25
Federal	7,000	106,000	37,934	(68,066)
Total revenues	<u>\$ 1,453,000</u>	<u>\$ 1,747,000</u>	<u>\$ 1,781,750</u>	<u>\$ 34,750</u>
<b>EXPENDITURES</b>				
General government administration	\$ 403,100	\$ 663,100	\$ 547,822	\$ 115,278
Public safety	384,500	384,500	409,182	(24,682)
Public works	489,000	619,000	629,858	(10,858)
Cultural and recreation	105,400	105,400	92,904	12,496
Community development	30,000	30,000	13,306	16,694
Debt service	41,000	41,000	40,572	428
Total expenditures	<u>\$ 1,453,000</u>	<u>\$ 1,843,000</u>	<u>\$ 1,733,644</u>	<u>\$ 109,356</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ (96,000)</u>	<u>\$ 48,106</u>	<u>\$ 144,106</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 133,307	\$ 133,307
Transfers out	<u>-</u>	<u>-</u>	<u>(181,413)</u>	<u>(181,413)</u>
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (48,106)</u>	<u>\$ (48,106)</u>
Net change in fund balance	\$ -	\$ (96,000)	\$ -	\$ 96,000
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>(1,365,992)</u>	<u>(1,365,992)</u>	<u>-</u>	<u>1,365,992</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ (1,365,992)</u></u>	<u><u>\$ (1,461,992)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,461,992</u></u>

**TOWN OF BROADWAY, VIRGINIA**  
**SCHEDULE OF FUNDING PROGRESS -**  
**DEFINED BENEFIT PENSION PLAN**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) --Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/10	\$ 1,769,887	\$ 2,499,611	\$ 729,724	70.81%	\$ 740,077	98.60%
6/30/11	1,745,039	2,668,545	923,506	65.39%	779,210	118.52%
6/30/12	1,786,075	2,819,019	1,032,944	63.36%	812,541	127.13%

## **Other Supplementary Information**

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GENERAL PROPERTY TAXES</b>				
Real estate	\$ 179,000	\$ 179,000	\$ 179,803	\$ 803
Personal property	46,778	46,778	88,396	41,618
Public service corporations	2,500	2,500	2,949	449
Penalties and interest	2,000	2,000	3,174	1,174
	<u>\$ 230,278</u>	<u>\$ 230,278</u>	<u>\$ 274,322</u>	<u>\$ 44,044</u>
<b>OTHER LOCAL TAXES</b>				
Local sales and use	\$ 135,000	\$ 135,000	\$ 150,927	\$ 15,927
Utility taxes	115,500	115,500	117,665	2,165
Business licenses	70,000	70,000	69,914	(86)
Motor vehicle licenses	70,000	70,000	66,501	(3,499)
Meals tax	120,000	120,000	124,936	4,936
Bank stock	52,000	52,000	55,843	3,843
DMV fees	-	-	2,490	2,490
Cigarette tax	35,000	35,000	45,005	10,005
	<u>\$ 597,500</u>	<u>\$ 597,500</u>	<u>\$ 633,281</u>	<u>\$ 35,781</u>
<b>PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES</b>				
Zoning fees	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 4,070</u>	<u>\$ 2,070</u>
	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 4,070</u>	<u>\$ 2,070</u>
<b>FINES AND FORFEITURES</b>				
Police fines	\$ 5,000	\$ 5,000	\$ 6,946	\$ 1,946
Coyote Run bond forfeiture	-	65,000	65,030	30
	<u>\$ 5,000</u>	<u>\$ 70,000</u>	<u>\$ 71,976</u>	<u>\$ 1,976</u>
<b>REVENUE FROM THE USE OF MONEY AND PROPERTY</b>				
Interest on bank deposits	\$ 3,500	\$ 3,500	\$ 2,968	\$ (532)
Net (decrease) in the fair value of investments	-	-	(1,517)	(1,517)
Sale of equipment	1,000	1,000	-	(1,000)
Land lease	14,000	14,000	13,875	(125)
	<u>\$ 18,500</u>	<u>\$ 18,500</u>	<u>\$ 15,326</u>	<u>\$ (3,174)</u>
<b>CHARGES FOR SERVICES</b>				
Trash collection fees	\$ 185,000	\$ 185,000	\$ 191,723	\$ 6,723
Parks revenue	40,000	40,000	50,459	10,459
	<u>\$ 225,000</u>	<u>\$ 225,000</u>	<u>\$ 242,182</u>	<u>\$ 17,182</u>
<b>MISCELLANEOUS</b>				
Donation	\$ -	\$ -	\$ 2,877	\$ 2,877
Other	2,000	2,000	4,035	2,035
	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 6,912</u>	<u>\$ 4,912</u>

(Continued)

**TOWN OF BROADWAY, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, COMPARED TO BUDGET**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>INTERGOVERNMENTAL REVENUES</b>				
<b>Commonwealth</b>				
ABC profits and wine taxes	\$ 2,700	\$ 2,700	\$ -	\$ (2,700)
Rolling stock taxes	1,800	1,800	3,190	1,390
Fire program funds	8,000	8,000	10,274	2,274
Law enforcement grants, 599 funds	60,000	60,000	58,788	(1,212)
Personal property tax reimbursement	33,222	33,222	33,222	-
Highway maintenance funds	<u>260,000</u>	<u>390,000</u>	<u>390,273</u>	<u>273</u>
	<u>\$ 365,722</u>	<u>\$ 495,722</u>	<u>\$ 495,747</u>	<u>\$ 25</u>
<b>Federal</b>				
Rural Development Business				
Enterprise grant	\$ -	\$ 99,000	\$ 35,380	\$ (63,620)
DMV Highway Safety Program grants	2,000	2,000	2,554	554
Art grant	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
	<u>\$ 7,000</u>	<u>\$ 106,000</u>	<u>\$ 37,934</u>	<u>\$ (68,066)</u>
<b>Total revenues</b>	<u>\$ 1,453,000</u>	<u>\$ 1,747,000</u>	<u>\$ 1,781,750</u>	<u>\$ 34,750</u>

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GENERAL GOVERNMENT ADMINISTRATION</b>				
<b>General Government</b>				
Town council salaries	\$ 25,100	\$ 25,100	\$ 24,730	\$ 370
Salaries and wages	191,500	191,500	155,674	35,826
Employee benefits	44,000	44,000	47,377	(3,377)
Payroll taxes	14,000	14,000	11,600	2,400
Buildings and grounds	10,000	10,000	9,163	837
DMV fees	2,000	2,000	1,560	440
Donations	9,000	9,000	9,800	(800)
Dues and memberships	4,500	4,500	3,292	1,208
Insurance and surety bonds	9,000	9,000	9,082	(82)
Interest expense	-	-	282	(282)
Miscellaneous	10,000	10,000	12,117	(2,117)
Office supplies and postage	9,000	9,000	7,894	1,106
Professional services	33,000	33,000	34,290	(1,290)
Publications	5,500	5,500	1,613	3,887
Service fees	5,500	5,500	7,736	(2,236)
Travel/educational	12,000	12,000	7,499	4,501
Telephone	3,000	3,000	2,977	23
Utilities and fuel	6,000	6,000	6,149	(149)
	<u>\$ 393,100</u>	<u>\$ 393,100</u>	<u>\$ 352,835</u>	<u>\$ 40,265</u>
<b>Capital Outlay</b>				
General government	<u>\$ 10,000</u>	<u>\$ 270,000</u>	<u>\$ 194,987</u>	<u>\$ 75,013</u>
	<u>\$ 10,000</u>	<u>\$ 270,000</u>	<u>\$ 194,987</u>	<u>\$ 75,013</u>
<b>Total general government administration</b>	<u>\$ 403,100</u>	<u>\$ 663,100</u>	<u>\$ 547,822</u>	<u>\$ 115,278</u>
<b>PUBLIC SAFETY</b>				
<b>Police Department</b>				
Salaries and wages	\$ 200,000	\$ 200,000	\$ 214,695	\$ (14,695)
Employee benefits	54,000	54,000	56,830	(2,830)
Payroll taxes	14,500	14,500	15,367	(867)
Insurance	8,500	8,500	6,800	1,700
Telephone	5,500	5,500	3,878	1,622
Uniforms and supplies	14,000	14,000	12,128	1,872
Vehicle maintenance	15,000	15,000	21,978	(6,978)
	<u>\$ 311,500</u>	<u>\$ 311,500</u>	<u>\$ 331,676</u>	<u>\$ (20,176)</u>

(Continued)



**TOWN OF BROADWAY, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Other</b>				
Fire program funds	\$ 8,000	\$ 8,000	\$ 10,527	\$ (2,527)
Fire department donation	15,000	15,000	15,000	-
Rescue squad donation	15,000	15,000	15,000	-
	<u>\$ 38,000</u>	<u>\$ 38,000</u>	<u>\$ 40,527</u>	<u>\$ (2,527)</u>
<b>Capital Outlay</b>				
Public safety	<u>\$ 35,000</u>	<u>\$ 35,000</u>	<u>\$ 36,979</u>	<u>\$ (1,979)</u>
	<u>\$ 35,000</u>	<u>\$ 35,000</u>	<u>\$ 36,979</u>	<u>\$ (1,979)</u>
<b>Total public safety</b>	<u>\$ 384,500</u>	<u>\$ 384,500</u>	<u>\$ 409,182</u>	<u>\$ (24,682)</u>
<b>PUBLIC WORKS</b>				
<b>Maintenance and Streets</b>				
Salaries and wages	\$ -	\$ -	\$ 83,654	\$ (83,654)
Payroll taxes	-	-	6,025	(6,025)
Beautification	8,000	8,000	13,487	(5,487)
Electricity-street lights	36,000	36,000	39,723	(3,723)
Street maintenance	260,000	390,000	100,163	289,837
	<u>\$ 304,000</u>	<u>\$ 434,000</u>	<u>\$ 243,052</u>	<u>\$ 190,948</u>
<b>Sanitation</b>				
Trash removal - recycling	<u>\$ 185,000</u>	<u>\$ 185,000</u>	<u>\$ 180,835</u>	<u>\$ 4,165</u>
	<u>185,000</u>	<u>\$ 185,000</u>	<u>\$ 180,835</u>	<u>\$ 4,165</u>
<b>Capital Outlay</b>				
Public works	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,971</u>	<u>\$ (205,971)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,971</u>	<u>\$ (205,971)</u>
<b>Total public works</b>	<u>\$ 489,000</u>	<u>\$ 619,000</u>	<u>\$ 629,858</u>	<u>\$ (10,858)</u>

(Continued)

## TOWN OF BROADWAY, VIRGINIA

**GENERAL FUND**  
**STATEMENT OF EXPENDITURES, COMPARED TO BUDGET**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>CULTURAL AND RECREATION</b>				
<b>Parks and Recreation</b>				
Salaries and wages	\$ 36,000	\$ 36,000	\$ 38,363	\$ (2,363)
Payroll taxes	2,800	2,800	2,935	(135)
Park operating expenses	21,000	21,000	26,403	(5,403)
Utilities and fuel	9,000	9,000	7,289	1,711
Miscellaneous	5,000	5,000	6,325	(1,325)
Contractual services	6,600	6,600	9,139	(2,539)
	<u>\$ 80,400</u>	<u>\$ 80,400</u>	<u>\$ 90,454</u>	<u>\$ (10,054)</u>
<b>Capital Outlay</b>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 2,450</u>	<u>\$ 22,550</u>
	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 2,450</u>	<u>\$ 22,550</u>
<b>Total cultural and recreation</b>	<u>\$ 105,400</u>	<u>\$ 105,400</u>	<u>\$ 92,904</u>	<u>\$ 12,496</u>
<b>COMMUNITY DEVELOPMENT</b>				
Planning and development	\$ 15,000	\$ 15,000	\$ 11,143	\$ 3,857
Economic development	<u>15,000</u>	<u>15,000</u>	<u>2,163</u>	<u>12,837</u>
<b>Total community development</b>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 13,306</u>	<u>\$ 16,694</u>
<b>DEBT SERVICE</b>				
Principal on loans	\$ 36,500	\$ 36,500	\$ 27,391	\$ 9,109
Interest on loans	<u>4,500</u>	<u>4,500</u>	<u>13,181</u>	<u>(8,681)</u>
<b>Total debt service</b>	<u>\$ 41,000</u>	<u>\$ 41,000</u>	<u>\$ 40,572</u>	<u>\$ 428</u>
<b>Total expenditures</b>	<u>\$ 1,453,000</u>	<u>\$ 1,843,000</u>	<u>\$ 1,733,644</u>	<u>\$ 109,356</u>

## TOWN OF BROADWAY, VIRGINIA

## WATER FUND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
BUDGET AND ACTUAL  
Year Ended June 30, 2013**

	<b><u>Budget - Original &amp; Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance Positive (Negative)</u></b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 410,000	\$ 404,087	\$ (5,913)
Connection fees	60,000	74,000	14,000
Miscellaneous	4,000	10,974	6,974
Total operating revenues	<u>\$ 474,000</u>	<u>\$ 489,061</u>	<u>\$ 15,061</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 219,000	\$ 227,200	\$ (8,200)
Employee benefits	45,500	50,599	(5,099)
Payroll taxes	17,000	16,495	505
Water purchases - Co-Op	29,000	30,218	(1,218)
Chemicals	30,000	35,587	(5,587)
Insurance	12,000	10,340	1,660
Miscellaneous	4,000	2,236	1,764
Postage	1,400	1,398	2
Professional fees	10,000	499	9,501
Repairs and maintenance	40,000	59,852	(19,852)
Supplies	2,000	2,458	(458)
Utilities and fuel	30,000	29,564	436
Telephone	2,400	2,673	(273)
Vehicle maintenance	4,500	13,038	(8,538)
Depreciation	-	91,707	(91,707)
Total operating expenses	<u>\$ 446,800</u>	<u>\$ 573,864</u>	<u>\$ (127,064)</u>
Operating income (loss)	<u>\$ 27,200</u>	<u>\$ (84,803)</u>	<u>\$ (112,003)</u>
<b>NONOPERATING REVENUES (EXPENSE)</b>			
Interest earned	\$ 3,000	\$ 2,935	\$ (65)
Lease of water tank space	28,800	35,707	6,907
Spring lease fees	(5,000)	(5,000)	-
Total nonoperating revenues (expense)	<u>\$ 26,800</u>	<u>\$ 33,642</u>	<u>\$ 6,842</u>
Income (loss) before transfers	<u>\$ 54,000</u>	<u>\$ (51,161)</u>	<u>\$ (105,161)</u>
<b>TRANSFERS</b>			
Transfers in	\$ -	\$ 518,025	\$ 518,025
Transfers out	-	(85,046)	(85,046)
	<u>\$ -</u>	<u>\$ 432,979</u>	<u>\$ 432,979</u>
Change in net position	\$ 54,000	\$ 381,818	\$ 327,818
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>3,812,723</u>	<u>3,812,723</u>	<u>-</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 3,866,723</u>	<u>\$ 4,194,541</u>	<u>\$ 327,818</u>

**TOWN OF BROADWAY, VIRGINIA**

**SEWER FUND**

**STATEMENT OF REVENUES, EXPENSES AND**

**CHANGES IN FUND NET POSITION- BUDGET AND ACTUAL**

**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OPERATING REVENUES</b>				
Wastewater contracts	\$ 1,900,000	\$ 2,265,000	\$ 2,076,531	\$ (188,469)
Charges for services	330,000	330,000	316,560	(13,440)
Connection fees	61,500	61,500	76,100	14,600
Sludge revenue	322,000	322,000	145,356	(176,644)
Miscellaneous	-	-	13,425	13,425
Total operating revenues	<u>\$ 2,613,500</u>	<u>\$ 2,978,500</u>	<u>\$ 2,627,972</u>	<u>\$ (350,528)</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	\$ 329,000	\$ 329,000	\$ 347,999	\$ (18,999)
Employee benefits	82,000	82,000	95,705	(13,705)
Payroll taxes	25,500	25,500	23,922	1,578
Chemicals	270,000	270,000	298,392	(28,392)
Insurance	14,000	14,000	11,358	2,642
Lab testing	80,000	80,000	85,106	(5,106)
Miscellaneous	4,000	4,000	7,943	(3,943)
Postage	1,000	1,000	1,394	(394)
Professional fees	7,500	7,500	2,512	4,988
Repairs and maintenance	103,000	213,000	240,067	(27,067)
Supplies	4,000	4,000	3,746	254
Sludge removal	350,000	350,000	65,112	284,888
Utilities and fuel	425,000	425,000	364,888	60,112
Telephone	6,500	6,500	7,394	(894)
Amortization	-	-	2,560	(2,560)
Depreciation	-	-	448,796	(448,796)
Total operating expenses	<u>\$ 1,701,500</u>	<u>\$ 1,811,500</u>	<u>\$ 2,006,894</u>	<u>\$ (195,394)</u>
Operating income	<u>\$ 912,000</u>	<u>\$ 1,167,000</u>	<u>\$ 621,078</u>	<u>\$ (545,922)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest earned	\$ 11,200	\$ 11,200	\$ 6,848	\$ (4,352)
Realized gain on investments	-	-	229	229
Unrealized (loss) on investments	-	-	(5,235)	(5,235)
Interest expense	<u>(385,100)</u>	<u>(385,100)</u>	<u>(332,078)</u>	<u>53,022</u>
Total nonoperating revenue (expense)	<u>\$ (373,900)</u>	<u>\$ (373,900)</u>	<u>\$ (330,236)</u>	<u>\$ 43,664</u>
Income before transfers	<u>\$ 538,100</u>	<u>\$ 793,100</u>	<u>\$ 290,842</u>	<u>\$ (502,258)</u>

(Continued)

**TOWN OF BROADWAY, VIRGINIA**

**SEWER FUND**

**STATEMENT OF REVENUES, EXPENSES AND**

**CHANGES IN FUND NET POSITION- BUDGET AND ACTUAL**

**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>TRANSFERS</b>				
Transfers in	\$ -	\$ -	\$ 6,710	\$ 6,710
Transfers out	-	-	(391,693)	(391,693)
Total transfers	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (384,983)</u>	<u>\$ (384,983)</u>
 Change in net position	 \$ 538,100	 \$ 793,100	 \$ (94,141)	 \$ (887,241)
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>7,136,906</u>	<u>7,136,906</u>	<u>7,136,906</u>	<u>-</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 7,675,006</u>	<u>\$ 7,930,006</u>	<u>\$ 7,042,765</u>	<u>\$ (887,241)</u>

**TOWN OF BROADWAY, VIRGINIA**  
**SCHEDULE OF CAPITAL ADDITIONS**  
**Year Ended June 30, 2013**

**GENERAL FUND**

Park:	
Security camera system	\$ 2,450
Police:	
Telephone system	7,636
Police Department renovations	29,342
Infrastructure:	
Coyote Run Subdivision	79,906
Farmers' Market	194,987
Springbrook sidewalk project	18,675
Public works:	
Salt shed	38,676
2012 Ford F450	59,035
T5800 cut-off saw	2,255
Exmark zero turn mower	<u>7,425</u>
<b>Total general fund</b>	<b><u>\$ 440,387</u></b>

**WATER FUND**

Streaming current monitor	\$ 9,975
Raw water pump repairs	10,470
EZ valve installation for Lee Street and Route 42	6,229
EZ valve installation for Park Avenue and Lee Street	5,945
EZ valve installation for Broadway Avenue and Main Street	7,079
Valves	<u>3,850</u>
<b>Total water fund</b>	<b><u>\$ 43,548</u></b>

**SEWER FUND**

Baffle project for WWTF	\$ 254,862
Irrigation pump #1	6,553
Kubota utility vehicle	12,200
Spare mixer	5,325
Wire for irrigation pipes	13,220
4 <sup>th</sup> Street sewer line replacement	<u>10,381</u>
<b>Total sewer fund</b>	<b><u>\$ 302,541</u></b>

**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 Town Council  
Town of Broadway  
Broadway, VA 22815

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Broadway, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Broadway's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Broadway'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 Broadway's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Broadway's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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

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

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

2. The management and staff of the Town lack the expertise to reconcile certain accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit services providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.

3. The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide assistance in drafting the Town's financial statements. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit service providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.



## **Compliance and Other Matters**

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

## **Response to Findings**

The Town of Broadway's response to the findings identified in our audit is described under the material weaknesses reported above. The Town of Broadway's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.

Harrisonburg, VA  
October 21, 2013