



TOWN OF STRASBURG, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

TOWN OF STRASBURG, VIRGINIA

**Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

TOWN OF STRASBURG, VIRGINIA

Strasburg, Virginia

OFFICIALS

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

TOWN COUNCIL

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

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

TABLE OF CONTENTS

		<u>Page</u>
Independent Auditors' Report		1-3
Management's Discussion and Analysis.....		4-13
	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	1	14
Statement of Activities.....	2	15-16
Fund Financial Statements:		
Balance Sheet — Governmental Funds	3	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4	18
Statement of Revenues, Expenditures and Change in Fund Balances — Governmental Funds.....	5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities ..	6	20
Statement of Net Position — Proprietary Funds	7	21
Statement of Revenues, Expenses, and Changes In Fund Net Position Proprietary Funds	8	22
Statement of Cash Flows —Proprietary Funds.....	9	23-24
Notes to Financial Statements		25-50
Required Supplementary Information:		
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual — General Fund	10	51
Schedule of Pension Funding Progress.....	11	52
Schedule of OPEB Funding Progress – VRS Health Insurance Credit Program	12	53

TABLE OF CONTENTS (CONTINUED)

	<u>Table</u>	<u>Page</u>
Statistical Tables:		
Government-Wide Expenses by Function.....	1	54-55
Government-Wide Revenues.....	2	56-57
General Governmental Expenditures by Function	3	58-59
General Governmental Revenues by Source	4	60-61
Property Tax Levies and Collections.....	5	62-63
Assessed Value of Taxable Property	6	64
Property Tax Rates	7	65
Principal Taxpayers.....	8	66
Computation of Legal Debt Martin	9	67
 Compliance:		
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 <i>Government Auditing Standards</i>		68-69

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia, as of June 30, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Strasburg, Virginia's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the Town of Strasburg, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Strasburg, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
November 15, 2013

THIS PAGE LEFT BLANK INTENTIONALLY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) offers an overview and analysis of the financial activities of the Town of Strasburg for the fiscal year ended June 30, 2013. The information presented here should be considered in conjunction with additional information provided in the Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

The assets of the Town exceeded its liabilities at June 30, 2013 by \$19,194,554, which equals the total net position of the Town. Of this amount, \$6,805,177 is unrestricted and may be used to meet the Town's future obligations. Of the \$6,805,177 unrestricted net position, approximately \$1,340,874 is related to governmental activities and is undesignated and available for future General Fund expenditures. The \$5,464,303 remaining balance of unrestricted net position is related to business-type activities, which includes the Town's enterprise fund.

The Town's total long-term debt decreased by \$597,208 from \$14,022,319 as of June 30, 2012 to \$13,425,111 as of June 30, 2013. The decrease was mainly due to principal being reduced and the 1992 bond retired with annual debt service of \$80,000 in Governmental Activities.

Fund Financial Statements

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

The Town's governmental funds reported revenues and other financing sources in deficiency of expenditures and other financing uses in the amount of \$193,807 for the fiscal year; with an ending fund equity balance of \$1.4 million of that amount \$67,857 is restricted for proffers.

The Town's proprietary funds reported net income of \$2.17 million mainly due to an approved rate increase which included \$715,000 to be placed in reserves to help offset expenses in future years for capital projects

General Financial Highlights

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Summary of Statement of Net Position
as of June 30, 2013
(in millions)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,555	\$ 2,869	\$ 6,145	\$ 5,210	\$ 8,700	\$ 8,079
Capital assets	4,509	4,118	22,691	22,236	27,200	26,354
Total Assets	<u>\$ 7,064</u>	<u>\$ 6,987</u>	<u>\$ 28,836</u>	<u>\$ 27,446</u>	<u>\$ 35,900</u>	<u>\$ 34,433</u>
Long-term debt						
outstanding	\$ 827	\$ 985	\$ 12,598	\$ 13,038	\$ 13,425	\$ 14,023
Other liabilities	1,232	1,021	2,048	2,395	3,280	3,416
Total Liabilities	<u>\$ 2,059</u>	<u>\$ 2,006</u>	<u>\$ 14,646</u>	<u>\$ 15,433</u>	<u>\$ 16,705</u>	<u>\$ 17,439</u>
Net Position						
Net investment in capital assets	\$ 3,596	\$ 3,009	\$ 8,726	\$ 7,700	\$ 12,322	\$ 10,709
Restricted for other purposes	68	67	-	-	68	
Unrestricted	1,341	1,905	5,464	4,313	6,805	6,218
Total net position	<u>\$ 5,005</u>	<u>\$ 4,981</u>	<u>\$ 14,190</u>	<u>\$ 12,013</u>	<u>\$ 19,195</u>	<u>\$ 16,994</u>

The Town’s combined net position increased from \$17 million at June 30, 2012 to \$19 million at June 30, 2013 primarily due to an increase in capital assets in business type activities. The majority (64 percent) of the Town’s net position of governmental activities is invested in capital assets (streets, drainage, constructions in progress, buildings, equipment, etc.) The capital assets are not available for future expenditures since they will not be sold. The Town has a strong financial position with 27 percent of net position in governmental activities unrestricted and available for providing services to the citizens of the Town of Strasburg.

The net position of the Town’s business-type activities are \$14 million, an increase of about \$2.1 million from June 30, 2012. The increase is a result of an increase in water and sewer fees, of which \$715,000 will be placed in reserves to offset future expenditures in the sewer fund. The majority (61 percent) of the net position in the business-type activities is invested in capital assets. The Town uses the unrestricted net position to upgrade water and sewer lines, water treatment plant and wastewater treatment plant.

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
PRIMARY GOVERNMENT:						
Governmental activities:						
General government						
administration	\$ (488,702)	\$ (559,322)	\$ -	\$ -	\$ (488,702)	\$ (559,322)
Public safety	(1,673,683)	(1,553,378)	-	-	(1,673,683)	(1,553,378)
Public works	(538,296)	(688,663)	-	-	(538,296)	(688,663)
Health and welfare	(9,399)	(9,272)	-	-	(9,399)	(9,272)
Community development	(55,221)	(10,909)	-	-	(55,221)	(10,909)
Parks, recreation and cultural	(119,363)	(112,699)	-	-	(119,363)	(112,699)
Interest on long-term debt	(38,526)	(45,836)	-	-	(38,526)	(45,836)
Total government activities	<u>\$ (2,923,190)</u>	<u>\$ (2,980,079)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,923,190)</u>	<u>\$ (2,980,079)</u>
Business-type activities:						
Water Fund	\$ -	\$ -	\$ 1,038,164	\$ 1,518,895	\$ 1,038,164	\$ 1,518,895
Sewer Fund	-	-	1,085,216	844,575	1,085,216	844,575
Trash Fund	-	-	(8,790)	(9,507)	(8,790)	(9,507)
Total business-type activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,114,590</u>	<u>\$ 2,353,963</u>	<u>\$ 2,114,590</u>	<u>\$ 2,353,963</u>
Total primary government	<u>\$ (2,923,190)</u>	<u>\$ (2,980,079)</u>	<u>\$ 2,114,590</u>	<u>\$ 2,353,963</u>	<u>\$ (808,600)</u>	<u>\$ (626,116)</u>
General revenues:						
General property taxes	\$ 1,408,679	\$ 1,401,461	\$ -	\$ -	\$ 1,408,679	\$ 1,401,461
Local sales tax	338,067	267,608	-	-	338,067	267,608
Franchise taxes	80,662	73,739	-	-	80,662	73,739
Business licenses	102,633	107,798	-	-	102,633	107,798
Meals tax	554,176	527,138	-	-	554,176	527,138
Utility tax	60,111	57,970	-	-	60,111	57,970
Motor vehicle licenses	137,955	139,039	-	-	137,955	139,039
Other taxes	336,494	350,240	-	-	336,494	350,240
Grants and contributions not restricted to specific programs	153,531	206,826	-	-	153,531	206,826
Revenue from the use of money and property	67,610	72,216	31,174	41,627	98,784	113,843
Loss on disposal of assets	-	(1,180)	(3,234)	-	(3,234)	(1,180)
Insurance proceeds	-	-	1,625	-	1,625	-
Miscellaneous	83,481	57,580	3,150	39,485	86,631	97,065
Transfers	(29,076)	533,048	29,076	(533,048)	-	-
Total general revenues	<u>\$ 3,294,323</u>	<u>\$ 3,793,483</u>	<u>\$ 61,791</u>	<u>\$ (451,936)</u>	<u>\$ 3,356,114</u>	<u>\$ 3,341,547</u>
Change in net position	<u>\$ 371,133</u>	<u>\$ 813,404</u>	<u>\$ 2,176,381</u>	<u>\$ 1,902,027</u>	<u>\$ 2,547,514</u>	<u>\$ 2,715,431</u>
Net position - beginning, as adjusted	<u>4,633,522</u>	<u>4,167,894</u>	<u>12,013,518</u>	<u>10,111,491</u>	<u>16,647,040</u>	<u>14,279,385</u>
Net position - ending	<u>\$ 5,004,655</u>	<u>\$ 4,981,298</u>	<u>\$ 14,189,899</u>	<u>\$ 12,013,518</u>	<u>\$ 19,194,554</u>	<u>\$ 16,994,816</u>

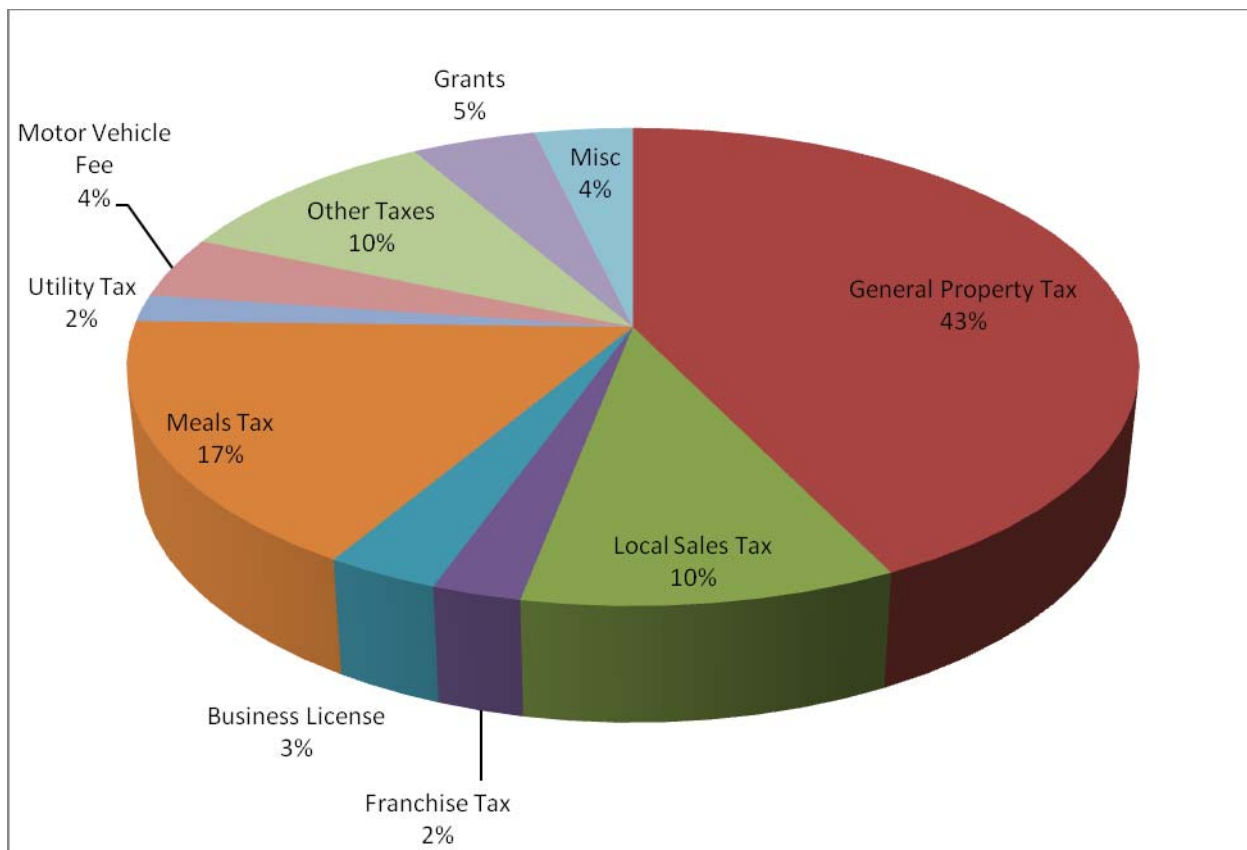
Governmental Activities

Revenues

For FY 12/13, revenues from governmental activities totaled \$3.29 million. General property taxes and other taxes are the largest component of revenue (92 percent). General property tax revenues were \$1.4 million. The Town received reimbursement of \$138,898 from the Commonwealth of Virginia for taxes on individual automobiles.

Other local taxes and fees including revenue from local sales, franchise tax, business licenses, and meals taxes were \$ 1.6 million, an increase of 6 percent from June 30, 2013 due to an increase in the amount of tax collected for meals tax and local sales tax.

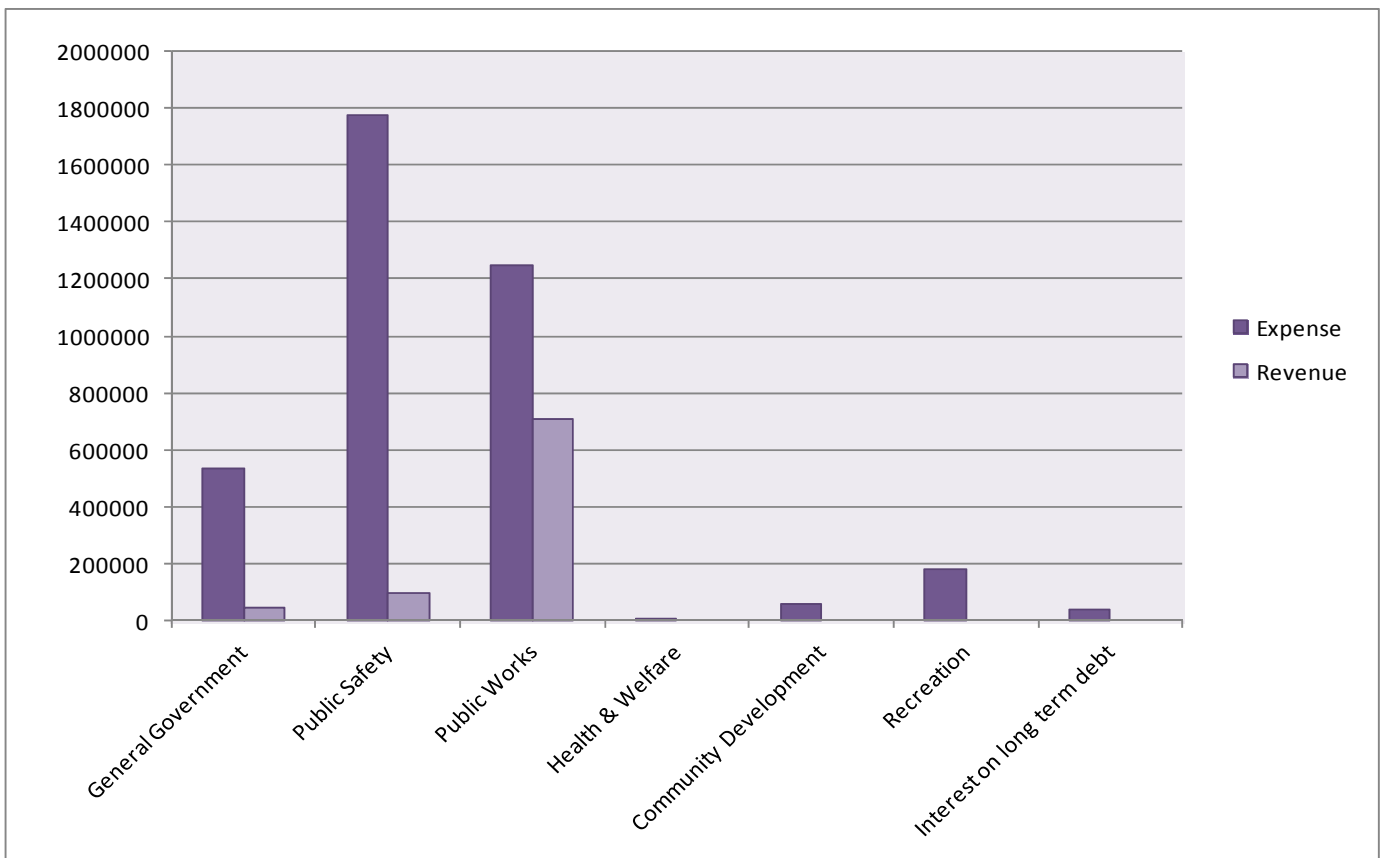
Revenue by Source-Governmental Activities



Expenses

For FY 12/13, expenses for governmental activities totaled \$3.8 million, which was an increase of \$122,000 over the previous year. This increase is mainly due to street maintenance projects in the Public Works Department. The Public Safety and Public Works departments account for 79 percent of the total expenses for governmental activities.

Program Expenses and Program Revenues – Governmental Activities



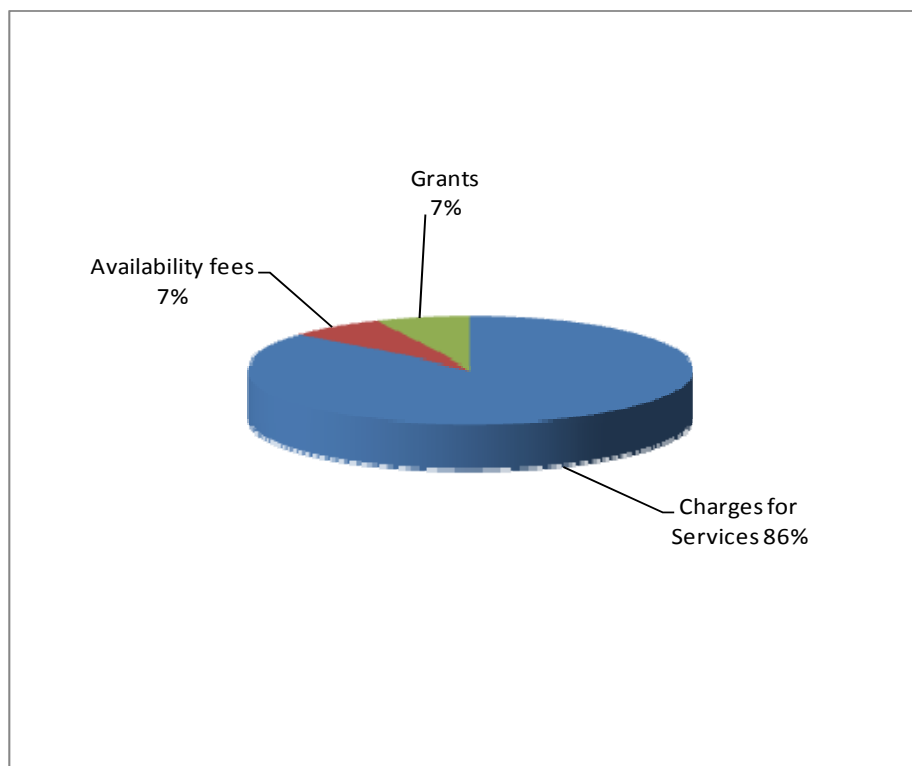
Business-type Activities

The Town's business-type activities are comprised of enterprise funds for water, sewer, and trash. Net position of these business-type activities increased by 2.1 million, this is mainly due to the construction of new water treatment plant and rate increases due to a future update at the wastewater treatment plant.

Revenues

Revenues for all business-type activities totaled \$ 5.69 million, which is a 1 percent increase over 2012. Charges for services increased as a result of an approved rate increase, availability fees increased due more new construction and the Town received one grant in the amount of \$423,208; as part of a federal grant for construction costs at the new water plant.

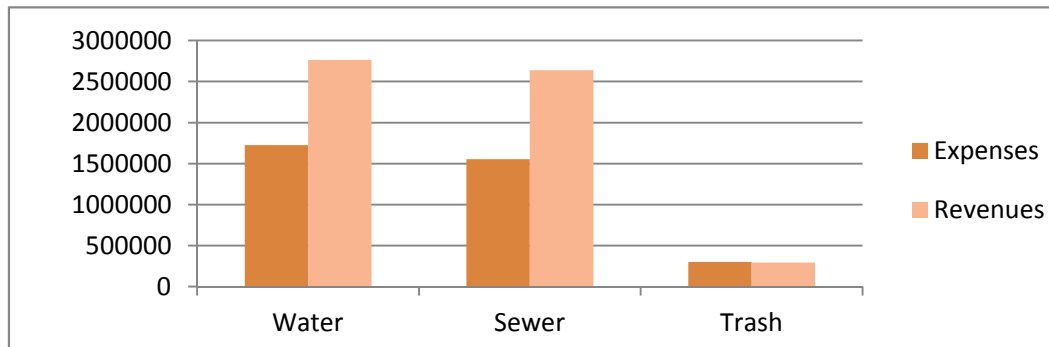
Revenues by Source - Business-type Activities



Expenses:

Expenses totaled \$3.58 million, which was an increase of \$300,000 over FY 2012. The increase was due in part to depositing funds in the reserve account for an upgrade to the wastewater treatment plant.

Expenses and Program Revenues – Business-type Activities



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

FUND FINANCIAL ANALYSIS

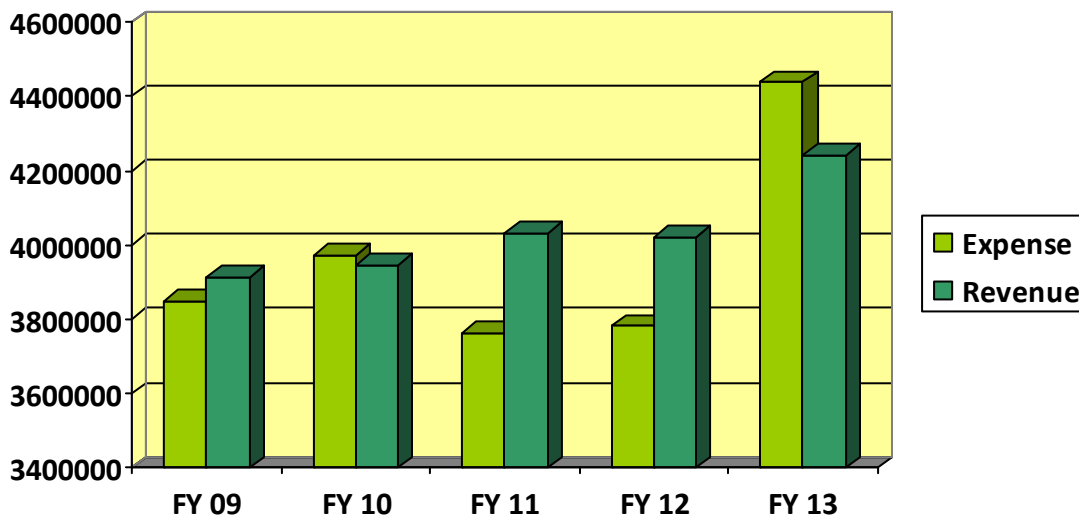
Governmental Funds

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

General Fund

The chief operating fund of the Town is the General Fund. At the end of FY 12/13, the undesignated fund balance was \$1.3 million which represents 37 percent of totals of the General Fund expenditures. The graph below shows General Fund summary financial information for the past five years.

Five Year General Fund Financial Summary



General Fund Budgetary Highlights

Actual expenditures exceeded revenues by \$193,807 in the General Fund before transfers to the trash fund and proceeds from capital leases. This is mainly due to repairs due to Hurricane Sandy, which the Town has applied to FEMA for reimbursement. Fiscal year 2013 actual revenues were approximately \$221,000 more than fiscal year 2012 revenues. The tax revenues increased 3% mainly due to the state sales tax.

Fiscal year 2013 actual expenditures were approximately \$540,000 more than fiscal year 2012 expenditures. The increase was due primarily to capital expenses in the public works department.

Proprietary Funds

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

Water Fund

The Water Fund ended FY 12/13 with unrestricted net position of \$2,469,509 which can be used for future fund expenses.

Sewer Fund

The Sewer Fund ended FY12/13 with unrestricted net position of \$2,993,146 which can be used for future fund expenses.

Trash Fund

Revenue in the Trash Fund in FY 12/13 was supplemented from the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

FY 12/13 primary government investment in capital assets for its governmental and business-type activities was \$27 million, net of depreciation (see chart below).

Capital Assets (net of depreciation in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land and improvements	\$ 639	\$ 639	\$ 116	\$ 87	\$ 755	\$ 726
Buildings and improvements	953	946	73	54	1,026	1,000
Infrastructure	2,314	2,288	6,878	6,794	9,192	2,288
Furniture, equipment & vehicles	537	246	262	279	799	7,040
Construction in Progress	65	-	15,362	15,021	15,427	15,021
Total	\$ 4,508	\$ 4,119	\$ 22,691	\$ 22,235	\$ 27,199	\$ 26,354

Total Capital Assets at June 30, 2013 were \$27 million compared to \$26 million at June 30, 2012, resulting in an increase of approximately \$1 million in the total Capital Assets. The majority of this increase is due to capital projects. In 2013 each capital asset is reported as net of accumulated depreciation.

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

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

Long-term Debt

The Town’s total outstanding debt at the end of FY12/13 was \$15.1 million, with \$14.1 million of business-type activities debt supported by the individual funds, resulting in net debt of governmental activities of \$1 million. Capital leases and vacation pay are included in outstanding debt.

**Town of Strasburg Outstanding Debt
General Obligation and Revenue Bonds
June 30, 2013**

	(In millions)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 874	\$ 1,067	\$ 13,954	\$ 14,512	\$ 14,828	\$ 15,579
Capital Lease	39	43	10	24	49	67
Compensated Absences	106	91	96	94	202	185
Total	\$ 1,019	\$ 1,201	\$ 14,060	\$ 14,630	\$ 15,079	\$ 15,831

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

ECONOMIC FACTORS

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

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

CONTACT INFORMATION

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Town of Strasburg, Virginia
Statement of Net Position
As of June 30, 2013

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,555,937	\$ 5,054,732	\$ 6,610,669
Receivables			
Taxes, net of allowance of \$39,937	762,165	-	762,165
Accounts, net of allowance of \$41,426	72,814	708,373	781,187
Due from other governmental units	69,002	49,488	118,490
Internal balances	18,155	(18,155)	-
Inventory	8,700	253,027	261,727
Restricted assets:			
Cash and cash equivalents	67,857	97,071	164,928
Total current assets	<u>\$ 2,554,630</u>	<u>\$ 6,144,536</u>	<u>\$ 8,699,166</u>
Capital assets:			
Non-depreciable:			
Land	\$ 639,469	\$ 116,837	\$ 756,306
Construction in progress	64,791	15,362,092	15,426,883
Depreciable, net of accumulated depreciation:			
Furniture, Equipment, and Vehicles	536,627	261,790	798,417
Buildings and improvements	953,518	72,735	1,026,253
Infrastructure	2,314,558	6,877,512	9,192,070
Total capital assets, net	<u>\$ 4,508,963</u>	<u>\$ 22,690,966</u>	<u>\$ 27,199,929</u>
Total assets	<u>\$ 7,063,593</u>	<u>\$ 28,835,502</u>	<u>\$ 35,899,095</u>
LIABILITIES			
Accounts payable	\$ 123,731	\$ 109,291	\$ 233,022
Contracts and retainage payable	-	323,192	323,192
Other liabilities	70,118	44,470	114,588
Customer deposits	-	79,383	79,383
Accrued interest payable	4,996	28,317	33,313
Due to other funds	-	-	-
Unearned revenue-other	175,686	-	175,686
Noncurrent liabilities:			
Due within one year	191,725	1,463,130	1,654,855
Due in more than one year	827,291	12,597,820	13,425,111
Total liabilities	<u>\$ 1,393,547</u>	<u>\$ 14,645,603</u>	<u>\$ 16,039,150</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	<u>\$ 665,391</u>	<u>\$ -</u>	<u>\$ 665,391</u>
NET POSITION			
Net investment in capital assets	\$ 3,595,924	\$ 8,725,596	\$ 12,321,520
Restricted for proffers	67,857	-	67,857
Unrestricted	1,340,874	5,464,303	6,805,177
Total net position	<u>\$ 5,004,655</u>	<u>\$ 14,189,899</u>	<u>\$ 19,194,554</u>

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

Town of Strasburg, Virginia
Statement of Activities
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 532,547	\$ 43,845	\$ -	\$ -
Public safety	1,773,475	-	99,792	-
Public works	1,247,980	-	-	709,684
Health and welfare	9,399	-	-	-
Community development	55,221	-	-	-
Parks, recreation and cultural	177,249	57,886	-	-
Interest on long-term debt	38,526	-	-	-
Total governmental activities	<u>\$ 3,834,397</u>	<u>\$ 101,731</u>	<u>\$ 99,792</u>	<u>\$ 709,684</u>
Business-type activities:				
Water Fund	\$ 1,725,249	\$ 2,340,205	\$ -	\$ 423,208
Sewer Fund	1,554,539	2,639,755	-	-
Trash Fund	301,194	292,404	-	-
Total business-type activities	<u>\$ 3,580,982</u>	<u>\$ 5,272,364</u>	<u>\$ -</u>	<u>\$ 423,208</u>
Total primary government	<u>\$ 7,415,379</u>	<u>\$ 5,374,095</u>	<u>\$ 99,792</u>	<u>\$ 1,132,892</u>

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

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (488,702)	\$ -	\$ (488,702)
(1,673,683)	-	(1,673,683)
(538,296)	-	(538,296)
(9,399)	-	(9,399)
(55,221)	-	(55,221)
(119,363)	-	(119,363)
(38,526)	-	(38,526)
<u>\$ (2,923,190)</u>	<u>\$ -</u>	<u>\$ (2,923,190)</u>
\$ -	\$ 1,038,164	\$ 1,038,164
-	1,085,216	1,085,216
-	(8,790)	(8,790)
<u>\$ -</u>	<u>\$ 2,114,590</u>	<u>\$ 2,114,590</u>
<u>\$ (2,923,190)</u>	<u>\$ 2,114,590</u>	<u>\$ (808,600)</u>
\$ 1,408,679	\$ -	\$ 1,408,679
338,067	-	338,067
80,662	-	80,662
102,633	-	102,633
554,176	-	554,176
60,111	-	60,111
137,955	-	137,955
336,494	-	336,494
153,531	-	153,531
67,610	31,174	98,784
-	(3,234)	(3,234)
-	1,625	1,625
83,481	3,150	86,631
(29,076)	29,076	-
<u>\$ 3,294,323</u>	<u>\$ 61,791</u>	<u>\$ 3,356,114</u>
<u>\$ 371,133</u>	<u>\$ 2,176,381</u>	<u>\$ 2,547,514</u>
<u>4,633,522</u>	<u>12,013,518</u>	<u>16,647,040</u>
<u>\$ 5,004,655</u>	<u>\$ 14,189,899</u>	<u>\$ 19,194,554</u>

THIS PAGE LEFT BLANK INTENTIONALLY

FUND FINANCIAL STATEMENTS

Town of Strasburg, Virginia
Balance Sheet
Governmental Funds
As of June 30, 2013

Exhibit 3

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,555,937
Receivables:	
Taxes, net of allowance of \$39,937	762,165
Accounts, net of allowance of \$41,426	72,814
Due from other governmental units	69,002
Due from other funds	18,155
Inventory	8,700
Total current assets	\$ <u>2,486,773</u>
Restricted assets:	
Cash and cash equivalents	\$ <u>67,857</u>
Total assets	\$ <u><u>2,554,630</u></u>
LIABILITIES	
Accounts payable	\$ 123,731
Other liabilities	70,118
Unearned revenue - other	175,686
Total liabilities	\$ <u>369,535</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ <u>767,527</u>
Total deferred inflows of resources	\$ <u>767,527</u>
FUND BALANCES	
Nonspendable - inventory	\$ 8,700
Restricted - proffers	67,857
Unassigned	1,341,011
Total fund balances	\$ <u>1,417,568</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u><u>2,554,630</u></u>

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

**Town of Strasburg, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
As of June 30, 2013**

Exhibit 4

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,417,568
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,508,963
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.		102,136
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(1,024,012)</u>
Net position of governmental activities	\$	<u><u>5,004,655</u></u>

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

Town of Strasburg, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

Exhibit 5

	<u>General</u>
REVENUES	
General property taxes	\$ 1,416,634
Other local taxes	1,614,343
Permits, privilege fees, and regulatory licenses	9,065
Fines and forfeitures	34,780
Miscellaneous	83,481
Revenue from the use of money and property	67,610
Charges for services	57,886
Intergovernmental revenue	
Commonwealth	926,210
Federal	32,552
Total revenues	<u>\$ 4,242,561</u>
EXPENDITURES	
Current:	
General government administration	\$ 584,702
Public safety	1,731,835
Public works	1,095,096
Health and welfare	9,399
Parks, recreation, and cultural	150,335
Community development	55,221
Capital projects:	
Administrative	21,913
Public safety	29,462
Public works	482,609
Parks, recreation, and cultural	10,000
Debt service:	
Principal	226,512
Interest	39,284
Total expenditures	<u>\$ 4,436,368</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (193,807)</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	\$ (29,076)
Issuance of capital lease	29,462
Total other financing sources (uses)	<u>\$ 386</u>
Net change in fund balance	\$ (193,421)
Fund balance, beginning of year, as restated	1,610,989
Fund balance, end of year	<u><u>\$ 1,417,568</u></u>

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

**Town of Strasburg, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2013**

Exhibit 6

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

Net change in fund balances - total governmental funds	\$ (193,421)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	390,136
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in unearned property taxes is reported as revenues in the governmental funds.	(7,955)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	197,049
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	<u>(14,676)</u>
Change in net position of governmental activities	<u>\$ 371,133</u>

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

Town of Strasburg, Virginia
Statement of Net Position
Proprietary Funds
As of June 30, 2013

Exhibit 7

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Trash Fund</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,491,279	\$ 2,563,453	\$ -	\$ 5,054,732
Receivables:				
Accounts, net of allowance for uncollectible accounts \$41,426	284,794	377,975	45,604	708,373
Due from other governmental units	49,488	-	-	49,488
Due to other funds	-	-	(18,155)	(18,155)
Inventory	110,605	142,422	-	253,027
Total current assets	<u>\$ 2,936,166</u>	<u>\$ 3,083,850</u>	<u>\$ 27,449</u>	<u>\$ 6,047,465</u>
Restricted assets:				
Cash and cash equivalents	<u>\$ 84,359</u>	<u>\$ 12,712</u>	<u>\$ -</u>	<u>\$ 97,071</u>
Total restricted assets	<u>\$ 84,359</u>	<u>\$ 12,712</u>	<u>\$ -</u>	<u>\$ 97,071</u>
Capital assets, net of accumulated depreciation	<u>\$ 15,963,084</u>	<u>\$ 6,727,882</u>	<u>\$ -</u>	<u>\$ 22,690,966</u>
Total assets	<u>\$ 18,983,609</u>	<u>\$ 9,824,444</u>	<u>\$ 27,449</u>	<u>\$ 28,835,502</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 49,433	\$ 34,057	\$ 25,801	\$ 109,291
Contracts payable	89,176	-	-	89,176
Retainage payable	234,016	-	-	234,016
Accrued wages	23,582	20,888	-	44,470
General obligation bonds payable current portion	293,453	1,159,245	-	1,452,698
Capital lease	-	10,432	-	10,432
Customer deposits	79,383	-	-	79,383
Accrued interest payable	25,382	2,935	-	28,317
Total current liabilities	<u>\$ 794,425</u>	<u>\$ 1,227,557</u>	<u>\$ 25,801</u>	<u>\$ 2,047,783</u>
Noncurrent liabilities:				
Compensated absences	\$ 50,044	\$ 45,536	\$ -	\$ 95,580
General obligation bonds payable	11,456,712	1,045,528	-	12,502,240
Total noncurrent liabilities	<u>\$ 11,506,756</u>	<u>\$ 1,091,064</u>	<u>\$ -</u>	<u>\$ 12,597,820</u>
Total liabilities	<u>\$ 12,301,181</u>	<u>\$ 2,318,621</u>	<u>\$ 25,801</u>	<u>\$ 14,645,603</u>
NET POSITION				
Net investment in capital assets	\$ 4,212,919	\$ 4,512,677	\$ -	\$ 8,725,596
Unrestricted	2,469,509	2,993,146	1,648	5,464,303
Total net position	<u>\$ 6,682,428</u>	<u>\$ 7,505,823</u>	<u>\$ 1,648</u>	<u>\$ 14,189,899</u>

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

Town of Strasburg, Virginia
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

Exhibit 8

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Trash Fund</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Sale of water	\$ 2,095,026	\$ -	\$ -	\$ 2,095,026
Sewer service charges	-	2,376,888	-	2,376,888
Trash collection fees	-	-	292,404	292,404
Late payment charges	53,979	53,979	-	107,958
Miscellaneous	1,965	1,185	-	3,150
Total operating revenues	<u>\$ 2,150,970</u>	<u>\$ 2,432,052</u>	<u>\$ 292,404</u>	<u>\$ 4,875,426</u>
OPERATING EXPENSES				
Water treatment facilities, transmission, and distribution	\$ 374,186	\$ -	\$ -	\$ 374,186
Personnel	918,801	810,691	-	1,729,492
Operation and maintenance	-	473,120	-	473,120
Trash collection	-	-	301,194	301,194
Depreciation	112,025	226,036	-	338,061
Total operating expenses	<u>\$ 1,405,012</u>	<u>\$ 1,509,847</u>	<u>\$ 301,194</u>	<u>\$ 3,216,053</u>
Net operating income (loss)	<u>\$ 745,958</u>	<u>\$ 922,205</u>	<u>\$ (8,790)</u>	<u>\$ 1,659,373</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	\$ 16,591	\$ 14,583	\$ -	\$ 31,174
Inspection fees	1,025	600	-	1,625
Bond issuance costs	-	(13,378)	-	(13,378)
Interest expense	(320,237)	(31,314)	-	(351,551)
Loss of disposal of assets	(3,234)	-	-	(3,234)
Total nonoperating revenues (expenses)	<u>\$ (305,855)</u>	<u>\$ (29,509)</u>	<u>\$ -</u>	<u>\$ (335,364)</u>
Income before contributions and transfers	<u>\$ 440,103</u>	<u>\$ 892,696</u>	<u>\$ (8,790)</u>	<u>\$ 1,324,009</u>
Capital contributions and construction grants	\$ 614,408	\$ 208,888	\$ -	\$ 823,296
Transfers in	14,538	14,538	-	29,076
Change in net position	<u>\$ 1,069,049</u>	<u>\$ 1,116,122</u>	<u>\$ (8,790)</u>	<u>\$ 2,176,381</u>
Net position - beginning	5,613,379	6,389,701	10,438	12,013,518
Net position - ending	<u>\$ 6,682,428</u>	<u>\$ 7,505,823</u>	<u>\$ 1,648</u>	<u>\$ 14,189,899</u>

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

Town of Strasburg, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Water Fund</u>	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,098,121	\$ 2,400,267
Payments to suppliers for goods and services	(564,043)	(606,642)
Payments to employees for services	(917,295)	(805,453)
Net cash provided by (used for) operating activities	<u>\$ 616,783</u>	<u>\$ 988,172</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	\$ 14,538	\$ 14,538
Net cash provided by (used for) noncapital financing activities	<u>\$ 14,538</u>	<u>\$ 14,538</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset additions	\$ (531,847)	\$ (264,478)
Principal payments on bonds	(302,382)	(254,571)
Principal payments on lease obligations	(1,879)	(11,689)
Interest payments	(321,357)	(32,156)
Insurance proceeds	-	600
Capital contributions from others	614,408	208,888
Bond issuance costs	-	(13,378)
Inspection fees	1,025	-
Net cash provided by (used for) capital and related financing activities	<u>\$ (542,032)</u>	<u>\$ (366,784)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	\$ 16,591	\$ 14,583
Net cash provided by (used for) investing activities	<u>\$ 16,591</u>	<u>\$ 14,583</u>
Net increase (decrease) in cash and cash equivalents	\$ 105,880	\$ 650,509
Cash and cash equivalents (including restricted) - beginning	2,469,758	1,925,656
Cash and cash equivalents (including restricted) - ending	<u>\$ 2,575,638</u>	<u>\$ 2,576,165</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 745,958	\$ 922,205
Depreciation expense	112,025	226,036
(Increase) decrease in accounts receivable	(17,780)	(31,785)
(Increase) decrease due from other governmental units	(49,488)	-
(Increase) decrease in inventory	(36,286)	(58,844)
Increase (decrease) in customer deposits	14,419	-
Increase (decrease) in accounts payable	(153,571)	(74,678)
Increase (decrease) in accrued wages	2,328	3,010
Increase (decrease) in compensated absences	(822)	2,228
Net cash provided by (used for) operating activities	<u>\$ 616,783</u>	<u>\$ 988,172</u>
Schedule of non-cash capital and related financing activities:		
Bond issuance costs	\$ -	\$ (13,378)
Supplemental disclosure:		
Interest paid during the year	<u>\$ 321,357</u>	<u>\$ 32,156</u>

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

Exhibit 9

<u>Trash Fund</u>	<u>Total</u>
\$ 290,414	\$ 4,788,802
(301,081)	(1,471,766)
-	(1,722,748)
<u>\$ (10,667)</u>	<u>\$ 1,594,288</u>
10,667	39,743
<u>\$ 10,667</u>	<u>\$ 39,743</u>
\$ -	\$ (796,325)
-	(556,953)
-	(13,568)
-	(353,513)
-	600
-	823,296
-	(13,378)
-	1,025
<u>\$ -</u>	<u>\$ (908,816)</u>
-	31,174
<u>\$ -</u>	<u>\$ 31,174</u>
\$ -	\$ 756,389
-	4,395,414
<u>\$ -</u>	<u>\$ 5,151,803</u>
\$ (8,790)	\$ 1,659,373
-	338,061
(1,990)	(51,555)
-	(49,488)
-	(95,130)
-	14,419
113	(228,136)
-	5,338
-	1,406
<u>\$ (10,667)</u>	<u>\$ 1,594,288</u>
\$ -	\$ (13,378)
<u>\$ -</u>	<u>\$ 353,513</u>

THIS PAGE LEFT BLANK INTENTIONALLY

TOWN OF STRASBURG, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Financial Reporting Entity

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

Blended component units – There were no blended component units for the Town for the year ended June 30, 2013.

Discretely Presented Component Units – There were no discretely presented component units for the Town for the year ended June 30, 2013.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

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

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

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

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

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance

1. Cash and cash equivalents

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

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

2. Receivables and payables

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

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

3. Property Taxes

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

4. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes amounted to approximately \$39,937 at June 30, 2013 and the allowance for uncollectible water, sewer and trash billings amounted to approximately \$41,426 at June 30, 2013.

5. Inventory

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

6. Use of Estimates

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

7. Capital assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest was not capitalized during the current year.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

7. Capital assets (continued)

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

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

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

8. Compensated Absences

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

9. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

10. Fund equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

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

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

11. Net position

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

12. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town did not have any deferred outflows of resources as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

13. *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board*

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

14. *Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board*

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013 (CONTINUED)

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

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

15. Net Position Flow Assumption

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds and net position—governmental activities* as reported in the government-wide statements of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$1,024,012) difference for the primary government is as follows:

	Primary Government
General obligation bonds payable	\$ (874,226)
Accrued interest payable	(4,996)
Capital leases	(38,813)
Compensated absences	(105,977)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	\$ (1,024,012)

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$390,136 difference for the primary government is as follows:

	Primary Government
Capital outlay	\$ 617,359
Depreciation expense	(227,223)
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 390,136

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013 (CONTINUED)

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

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

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$197,049 difference in the primary government are as follows:

	Primary Government
Debt issued or incurred:	
Capital lease issuance	\$ (29,462)
Principal repayments:	
General obligation debt	\$ 192,720
Capital leases	33,791
Net adjustment to decrease <i>net changes in balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>197,049</u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$14,676) difference for the primary government are as follows:

	Primary Government
Compensated absences	\$ (15,434)
Accrued interest	758
Net adjustment to decrease <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>(14,676)</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 3 — STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary information

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

1. Prior to April 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Council is authorized to transfer budgeted amounts within departments.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, except for the capital expense budget.
8. All budget data presented in the accompanying financial statements is the amended budget as of June 30.

B. Excess of expenditures over appropriations

For the year ended June 30, 2013, there were no funds in which expenditures exceeded appropriations.

C. Deficit fund equity

At June 30, 2013, there were no funds with deficit fund equity.

NOTE 4 — DEPOSITS AND INVESTMENTS:

Deposits

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

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 4 — DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

The Town's investments at June 30, 2013 were held by the Town or in the Town's name by the Town's custodial banks.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's investing activities are managed under the custody of the Town. The Town has not adopted a policy regarding credit risk of debt securities.

The Town's rated debt investments as of June 30, 2013 were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor's rating scale.

Town's Rated Debt Investments' Values

<u>Rated Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAA</u>
Local Government Investment Pool	\$ 12,712
Total	<u>\$ 12,712</u>

External Investment Pool

The fair value of the positions in the Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

NOTE 5—RECEIVABLES:

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

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 802,102	\$ -	\$ -	\$ -	\$ 802,102
Accounts	72,814	300,851	400,552	48,396	822,613
Gross receivables	\$ 874,916	\$ 300,851	\$ 400,552	\$ 48,396	\$ 1,624,715
Less: allowance for uncollectibles	(39,937)	(16,057)	(22,577)	(2,792)	(81,363)
Net total receivables	<u>\$ 834,979</u>	<u>\$ 284,794</u>	<u>\$ 377,975</u>	<u>\$ 45,604</u>	<u>\$ 1,543,352</u>

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013 (CONTINUED)

NOTE 6—DUE FROM OTHER GOVERNMENTAL UNITS:

	<u>Primary Government</u>
Commonwealth of Virginia:	
Communications tax	\$ 13,479
Sales tax	55,523
Total Commonwealth of Virginia	<u>\$ 69,002</u>
Federal Government:	
USDA Water or Waste System	\$ 49,488
Total	<u>\$ 118,490</u>

NOTE 7—RESTRICTED ASSETS:

Restricted cash and cash equivalents consists of the following for June 30, 2013:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>Business-type Activities</u>			
Utility deposits	\$ 84,359	\$ -	\$ 84,359
Unspent bond proceeds	-	12,712	12,712
Totals	<u>\$ 84,359</u>	<u>\$ 12,712</u>	<u>\$ 97,071</u>
<u>Governmental Funds</u>			
Restricted for proffers		\$	<u>67,857</u>

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

NOTE 8—CAPITAL ASSETS:

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2013.

Governmental Activities

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated:				
Land	\$ 639,469	\$ -	\$ -	\$ 639,469
Construction in progress	-	64,791	-	64,791
Total capital assets not being depreciated:	<u>\$ 639,469</u>	<u>\$ 64,791</u>	<u>\$ -</u>	<u>\$ 704,260</u>
Other capital assets:				
Buildings and improvements	\$ 1,897,297	\$ 54,172	\$ -	\$ 1,951,469
Furniture, equipment and vehicles	2,181,104	400,424	(6,561)	2,574,967
Infrastructure	3,520,390	97,972	-	3,618,362
Total other capital assets	<u>\$ 7,598,791</u>	<u>\$ 552,568</u>	<u>\$ (6,561)</u>	<u>\$ 8,144,798</u>
Accumulated depreciation:				
Buildings and improvements	\$ (950,883)	\$ (47,068)	\$ -	\$ (997,951)
Furniture, equipment and vehicles	(1,936,863)	(108,038)	6,561	(2,038,340)
Infrastructure	(1,231,687)	(72,117)	-	(1,303,804)
Total accumulated depreciation	<u>\$ (4,119,433)</u>	<u>\$ (227,223)</u>	<u>\$ 6,561</u>	<u>\$ (4,340,095)</u>
Other capital assets, net	<u>\$ 3,479,358</u>	<u>\$ 325,345</u>	<u>\$ -</u>	<u>\$ 3,804,703</u>
Net capital assets	<u>\$ 4,118,827</u>	<u>\$ 390,136</u>	<u>\$ -</u>	<u>\$ 4,508,963</u>

Depreciation expense was allocated as follows:

General government administration	\$ 24,670
Public safety	38,830
Public works	136,809
Parks, recreation and cultural	26,914
Total depreciation expense	<u>\$ 227,223</u>

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

NOTE 8—CAPITAL ASSETS: (CONTINUED)

Enterprise Activities

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 87,761	\$ 29,076	\$ -	\$ 116,837
Construction in progress	<u>15,021,390</u>	<u>699,486</u>	<u>(358,784)</u>	<u>15,362,092</u>
Total capital assets not being depreciated:	<u>\$ 15,109,151</u>	<u>\$ 728,562</u>	<u>\$ (358,784)</u>	<u>\$ 15,478,929</u>
Other capital assets:				
Equipment and vehicles	\$ 1,443,809	\$ 43,032	\$ (12,831)	\$ 1,474,010
Buildings and improvements	234,387	24,730	-	259,117
Infrastructure	<u>12,871,475</u>	<u>358,785</u>	<u>(14,167)</u>	<u>13,216,093</u>
Total other capital assets	<u>\$ 14,549,671</u>	<u>\$ 426,547</u>	<u>\$ (26,998)</u>	<u>\$ 14,949,220</u>
Accumulated depreciation:				
Equipment and vehicles	\$ (1,166,141)	\$ (58,910)	\$ 12,831	\$ (1,212,220)
Buildings and improvements	(179,557)	(6,825)	-	(186,382)
Infrastructure	<u>(6,077,188)</u>	<u>(272,326)</u>	<u>10,933</u>	<u>(6,338,581)</u>
Total accumulated depreciation	<u>\$ (7,422,886)</u>	<u>\$ (338,061)</u>	<u>\$ 23,764</u>	<u>\$ (7,737,183)</u>
Other capital assets, net	<u>\$ 7,126,785</u>	<u>\$ 88,486</u>	<u>\$ (3,234)</u>	<u>\$ 7,212,037</u>
Net capital assets	<u><u>\$ 22,235,936</u></u>	<u><u>\$ 817,048</u></u>	<u><u>\$ (362,018)</u></u>	<u><u>\$ 22,690,966</u></u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATIONS:

Changes in Long-term Obligations

The following is a summary of changes in long-term obligations transactions of the Primary Government for the year ended June 30, 2013:

	Balance July 1, 2012	Issuances/ Increases	Retirements	June 30, 2013
<u>Governmental activities:</u>				
General obligation bonds	\$ 1,066,946	\$ -	\$ 192,720	\$ 874,226
Capital leases	43,142	29,462	33,791	38,813
Compensated absences	90,543	15,434	-	105,977
Total governmental activities	<u>\$ 1,200,631</u>	<u>\$ 44,896</u>	<u>\$ 226,511</u>	<u>\$ 1,019,016</u>
<u>Business-type activities:</u>				
General obligation/revenue bonds	\$ 14,511,890	\$ -	\$ 556,952	\$ 13,954,938
Capital lease	24,000	-	13,568	10,432
Compensated absences	94,174	1,406	-	95,580
Total business-type activities	<u>\$ 14,630,064</u>	<u>\$ 1,406</u>	<u>\$ 570,520</u>	<u>\$ 14,060,950</u>
Total	<u>\$ 15,830,695</u>	<u>\$ 46,302</u>	<u>\$ 797,031</u>	<u>\$ 15,079,966</u>

Details of long-term obligations:

	Total Amount Due	Amount Due Within One Year
<u>Governmental Activities:</u>		
<u>Capital Leases:</u>		
\$33,750 issued November 18, 2010, due in annual installments of \$12,105 beginning November 18, 2011, through November 18, 2013 for the purchase of a 2010 Dodge Charger.	\$ 11,650	\$ 11,650
\$24,323 issued July 12, 2011, due in annual installments of \$8,584 beginning July 12, 2011, through July 12, 2013 for the purchase of a 2011 Ford Crown Victoria.	8,099	8,099
\$29,462 issued September 24, 2012, due in annual installments of \$10,398 beginning September 24, 2012, through September 24, 2014 for the purchase of a 2013 Ford Interceptor.	19,064	9,254
Total capital leases	<u>\$ 38,813</u>	<u>\$ 29,003</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations: (continued)

	Total Amount Due	Amount Due Within One Year
	<u> </u>	<u> </u>
General Obligation Bonds:		
Series 2004, \$700,000, refinance of 1991 bonds issued October 26, 2004 payable in monthly installments of \$5,094, through October 2019, with interest at 3.75%.	\$ 348,110	\$ 48,906
Series 2004, \$1,124,800 bonds issued October 26, 2004 payable in varying semi-annual installments, through November 2019, with variable interest rates.	499,700	87,400
Series 2004B, \$500,000 revenue bonds issued October 26, 2004 payable in monthly installments of \$5,326, through November 2013, with interest at 3.15%.	<u>26,416</u>	<u>26,416</u>
Total general obligations bonds	\$ <u>874,226</u>	\$ <u>162,722</u>
Compensated absences	\$ <u>105,977</u>	\$ <u>-</u>
Total governmental activities	\$ <u><u>1,019,016</u></u>	\$ <u><u>191,725</u></u>
Business type activities:		
Capital leases:		
\$31,334 issued August 1, 2011, due in annual installments of \$11,093 beginning August 1, 2011, through August 1, 2013, for the purchase of a GMC Sierra 3500.	\$ <u>10,432</u>	\$ <u>10,432</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATION: (CONTINUED)

Details of long-term obligations: (continued)

General obligation bonds:

Series 2004B, \$500,000 revenue bonds issued October 26, 2004 payable in monthly installments of \$5,326, through November 2013, with interest at 3.15%.	\$	26,416	\$	26,416
Series 2001, \$1,926,000 issued November 2000, payable in semi-annual installments of \$48,150 through September 2022 at 0% interest.		898,055		94,701
Series 2004, \$1,835,200 bonds issued October 26, 2004 payable in varying semi-annual installments, through October 2018, with variable interest rates.		815,300		142,600
Series 2009, \$9,000,000 bonds issued October 5, 2008 payable in monthly installments of \$31,860 through October 2049, with interest at 2.625%.		8,739,912		147,099
Series 2009, \$2,554,000 bonds issued October 5, 2008 payable in monthly installments of \$9,042 through October 2049, with interest at 2.625%.		2,475,255		41,882
Series 2011, \$1,000,000 general obligation note issued February 28, 2011 payable in monthly interest installments of \$1,575 through February 1, 2013 when the principal is due with interest at 1.890%.		<u>1,000,000</u>		<u>1,000,000</u>
Total general obligation bonds	\$	13,954,938	\$	1,452,698
Compensated absences	\$	<u>95,580</u>	\$	<u>-</u>
Total Business-type Activities	\$	<u><u>14,060,950</u></u>	\$	<u><u>1,463,130</u></u>

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Asset:		
Machinery and equipment	\$ 87,535	\$ 31,334
Accumulated depreciaton	(26,910)	(9,400)
Total	<u>\$ 60,625</u>	<u>\$ 21,934</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2013, were as follows:

Fiscal Year Ending June 30	Governmental Activities	Business-type Activities
2014	\$ 30,890	\$ 11,092
2015	10,398	-
Total minimum lease payments	\$ 41,288	\$ 11,092
Less: amount representing interest	(2,475)	(660)
Present value of minimum lease payments	<u>\$ 38,813</u>	<u>\$ 10,432</u>

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

Years Ending June 30,	Governmental Activities				Total	
	Capital Leases		General Obligation Bonds		Principal	Interest
	Principal	Interest	Principal	Interest		
2014	\$ 29,003	\$ 1,887	\$ 162,722	\$ 30,833	\$ 191,725	\$ 32,720
2015	9,810	589	141,971	25,518	151,781	26,107
2016	-	-	128,708	20,227	128,708	20,227
2017	-	-	134,519	14,870	134,519	14,870
2018	-	-	138,507	9,451	138,507	9,451
2019	-	-	142,574	3,875	142,574	3,875
2020	-	-	25,225	245	25,225	245
Total	<u>\$ 38,813</u>	<u>\$ 2,476</u>	<u>\$ 874,226</u>	<u>\$ 105,019</u>	<u>\$ 913,039</u>	<u>\$ 107,495</u>

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

Years Ending June 30,	Business-Type Activities Debt				Total	
	General Obligation Bonds		Capital Lease		Principal	Interest
	Principal	Interest	Principal	Interest		
2014	\$ 1,452,698	\$ 330,104	\$ 10,432	\$ 660	\$ 1,463,130	\$ 330,764
2015	437,502	311,856	-	-	437,502	311,856
2016	417,856	301,230	-	-	417,856	301,230
2017	429,348	290,479	-	-	429,348	290,479
2018	437,879	279,613	-	-	437,879	279,613
2019-2023	1,797,012	1,272,334	-	-	1,797,012	1,272,334
2024-2028	1,295,208	1,110,372	-	-	1,295,208	1,110,372
2029-2033	1,476,654	928,926	-	-	1,476,654	928,926
2034-2038	1,683,517	722,064	-	-	1,683,517	722,064
2039-2043	1,919,359	486,221	-	-	1,919,359	486,221
2044-2048	2,188,242	217,338	-	-	2,188,242	217,338
2049-2050	519,663	8,111	-	-	519,663	8,111
Total	<u>\$ 14,054,938</u>	<u>\$ 6,258,648</u>	<u>\$ 10,432</u>	<u>\$ 660</u>	<u>\$ 14,065,370</u>	<u>\$ 6,259,308</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 10—DEFINED BENEFIT PENSION PLAN:

Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years service credit. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service 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 were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. 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.

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town’s contribution rate for the fiscal year ended 2013 was 9.25% of annual covered payroll.

Annual Pension Cost

For fiscal year 2013, the Town’s annual pension cost of \$323,668 was equal to the Town’s required and actual contributions.

Three-Year Trend Information for the Town			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 292,778	100.00%	\$ -
June 30, 2012	292,351	100.00%	-
June 30, 2013	323,668	100.00%	-

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 10—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

Annual Pension Cost (Continued)

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the Town's plan was 85.22% funded. The actuarial accrued liability for benefits was \$7,439,387, and the actuarial value of assets was \$6,339,939, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,099,448. The covered payroll (annual payroll of active employees covered by the plan) was \$2,343,436, and ratio of the UAAL to the covered payroll was 46.92%.

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 the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 11—OTHER POST EMPLOYMENT BENEFITS:

Plan Description

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

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)

NOTE 11—OTHER POST EMPLOYMENT BENEFITS: (CONTINUED)

Plan Description (Continued)

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

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

Funding Policy

The employer is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 0.16% of annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation

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

For 2013, the Town's contribution of \$4,223 was equal to the ARC and OPEB cost. The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 4,223	100.00%	-
June 30, 2012	4,269	100.00%	-
June 30, 2011	4,272	100.00%	-

TOWN OF STRASBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 (CONTINUED)

NOTE 11—OTHER POST EMPLOYMENT BENEFITS: (CONTINUED)

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the Town's plan was 74.46% funded. The actuarial accrued liability for benefits was \$54,100, and the actuarial value of assets was \$40,284, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,816. The covered payroll (annual payroll of active employees covered by the plan) was \$2,343,436, and ratio of the UAAL to the covered payroll was 0.59%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions

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

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7% investment rate of return, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2012 was 29 years.

Measurement of Actuarial Information

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

The following simplifying assumptions were made:

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

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 11—OTHER POST EMPLOYMENT BENEFITS: (CONTINUED)

Actuarial Methods and Assumptions (Continued)

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

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

Interest Assumptions

Funding interest rate	7.00%
Annual amortization increase rate	2.50%

NOTE 12—SURETY BONDS:

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

NOTE 13—RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town also provides a risk management program for workers’ compensation. Premiums are paid by the general fund and all other funds and are available to pay claims, claim reserves and administrative costs of the program.

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

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays Virginia Municipal Group contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 14—CONTINGENCIES:

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

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

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

NOTE 15—INTERFUND RECEIVABLE AND PAYABLES:

There were no receivable or payable balances between the governmental and proprietary type funds at June 30, 2013.

NOTE 16—COMMITMENTS:

The Town had the following material contracts outstanding at June 30, 2013:

Project	Original Contract Amount	Amount Spent to Date	Amount of Contract Remaining at Year End
WTP Construction and Upgrades	\$ 11,596,725	\$ 10,915,619	\$ 681,106
Total	<u>\$ 11,596,725</u>	<u>\$ 10,915,619</u>	<u>\$ 681,106</u>

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

NOTE 17—INTERFUND TRANSFERS:

Interfund transfers for the year ended June 30, 2013 were made up of the following:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 29,076
Water Fund	14,538	-
Sewer Fund	14,538	-
Total	<u>\$ 29,076</u>	<u>\$ 29,076</u>

TOWN OF STRASBURG, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 (CONTINUED)**

NOTE 18—RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS:

Beginning fund balance and beginning net position have been restated in the financial statements as detailed below:

	Governmental Activities Fund Balance	Government-wide Net Position
As previously reported, July 1, 2012	\$ 1,958,765	\$ 4,981,298
To adjust for State Highway Maintenance funds not deferred in prior year	(347,776)	(347,776)
As adjusted, July 1, 2012	<u>\$ 1,610,989</u>	<u>\$ 4,633,522</u>

NOTE 19—LITIGATION:

At June 30, 2013, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

NOTE 20—UPCOMING PRONOUNCEMENTS:

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that area administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town has not determined the impact of this pronouncement on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 1,624,583	\$ 1,624,583	\$ 1,416,634	\$ (207,949)
Other local taxes	1,514,900	1,514,900	1,614,343	99,443
Permits, privilege fees, and regulatory licenses	12,500	12,500	9,065	(3,435)
Fines and forfeitures	35,000	35,000	34,780	(220)
Revenue from the use of money and property	71,000	71,000	67,610	(3,390)
Charges for services	81,555	81,555	57,886	(23,669)
Miscellaneous	74,300	74,300	83,481	9,181
Intergovernmental revenues:				
Commonwealth	604,792	604,792	926,210	321,418
Federal	-	-	32,552	32,552
Total revenues	\$ 4,018,630	\$ 4,018,630	\$ 4,242,561	\$ 223,931
EXPENDITURES				
Current:				
General government administration	\$ 677,822	\$ 677,822	\$ 584,702	\$ 93,120
Public safety	1,663,947	1,663,947	1,731,835	(67,888)
Public works	1,070,256	1,070,256	1,095,096	(24,840)
Health and welfare	-	-	9,399	(9,399)
Parks, recreation and cultural	162,675	162,675	150,335	12,340
Community development	47,000	47,000	55,221	(8,221)
Capital outlay:				
Administrative	100,000	100,000	21,913	78,087
Public safety	25,000	25,000	29,462	(4,462)
Public Works	30,000	30,000	482,609	(452,609)
Parks, recreation and cultural	10,000	25,000	10,000	15,000
Debt service:				
Principal	256,930	256,930	226,512	30,418
Interest	39,284	39,284	39,284	-
Total expenditures	\$ 4,082,914	\$ 4,097,914	\$ 4,436,368	\$ (338,454)
Excess (deficiency) of revenues over (under) expenditures	\$ (64,284)	\$ (79,284)	\$ (193,807)	\$ (114,523)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ 39,284	\$ 39,284	\$ (29,076)	\$ (68,360)
Issuance of capital leases	25,000	25,000	29,462	4,462
Total other financing sources and uses	\$ 64,284	\$ 64,284	\$ 386	\$ (63,898)
Net change in fund balances	\$ -	\$ -	\$ (193,421)	\$ (178,421)
Fund balances - beginning, as restated	-	-	1,610,989	1,610,989
Fund balances - ending	\$ -	\$ -	\$ 1,417,568	\$ 1,432,568

Town of Strasburg, Virginia
Schedule of Pension Funding Progress
As of June 30, 2013

Exhibit 11

Town Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/12	\$ 6,339,939	\$ 7,439,387	\$ 1,099,448	85.22%	\$ 2,343,436	46.92%
06/30/11	6,208,251	6,973,415	765,164	89.03%	2,551,778	29.99%
06/30/10	5,807,097	6,661,933	854,836	87.17%	2,585,560	33.06%

Town of Strasburg, Virginia
Schedule of OPEB Funding Progress - VRS Health Insurance Credit Program
As of June 30, 2013

Exhibit 12

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/12	\$ 40,284	\$ 54,100	\$ 13,816	74.46%	\$ 2,343,436	0.59%
06/30/11	36,452	54,658	18,206	66.69%	2,551,778	0.71%
06/30/10	26,947	48,951	22,004	55.05%	2,585,560	0.85%

STATISTICAL TABLES

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

<u>Fiscal Year</u>	<u>General Government Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks, Recreation, and Cultural</u>	<u>Health and Welfare</u>	<u>Community Development</u>
2003-04	\$ 306,771	\$ 894,656	\$ 767,027	\$ 35,804	\$ -	9,425
2004-05	367,584	1,061,495	1,057,369	34,394	-	31,285
2005-06	449,250	1,220,144	1,019,816	36,844	-	23,490
2006-07	486,375	1,481,260	1,639,106	37,718	-	33,024
2007-08	619,959	1,574,469	1,271,651	41,378	-	28,697
2008-09	558,230	1,668,255	1,276,394	37,984	-	16,352
2009-10	684,734	1,670,107	1,409,366	33,150	6,971	35,085
2010-11	662,672	1,623,621	1,148,847	43,115	7,305	27,500
2011-12	(1) 505,436	1,723,170	1,210,481	179,400	9,272	40,116
2012-13	532,547	1,773,475	1,247,980	177,249	9,399	55,221

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

Table 1

Interest on Long- Term Debt	Water	Sewer	Trash	Recreation	Total
\$ 152,547	\$ 1,094,879	\$ 1,040,676	\$ 141,850	\$ 116,468	\$ 4,560,103
142,988	1,202,472	1,127,117	147,727	109,683	5,282,114
94,298	1,163,033	1,150,540	154,636	121,542	5,433,593
94,341	1,338,398	1,367,215	177,223	126,550	6,781,210
81,543	1,412,641	1,493,954	204,149	167,320	6,895,761
72,991	1,538,738	1,508,449	237,830	154,290	7,069,513
64,539	1,570,493	1,557,148	321,645	162,475	7,515,713
52,218	1,897,287	1,406,216	301,737	146,956	7,317,474
45,836	1,437,482	1,547,325	295,362	-	6,993,880
38,526	1,725,249	1,554,539	301,194	-	7,415,379

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

Fiscal Year	PROGRAM REVENUES		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
2003-04	\$ 1,695,546	\$ 109,113	\$ 1,483,611
2004-05	1,976,301	112,483	1,715,695
2005-06	2,209,053	113,800	1,034,085
2006-07	2,463,080	118,020	1,333,523
2007-08	2,913,871	118,645	1,764,141
2008-09	3,183,282	114,186	1,034,438
2009-10	3,572,264	104,652	806,897
2010-11	3,972,733	103,424	1,035,935
2011-12	(1) 4,716,323	99,792	1,550,467
2012-13	5,374,095	99,792	1,132,892

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

Table 2

GENERAL REVENUES

General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Mis- cellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
\$ 1,109,876	\$ 984,212	\$ 3,690	\$ 70,225	\$ 23,895	\$ 5,480,168
1,226,085	1,083,472	45,433	69,046	18,004	6,246,519
1,253,388	1,434,673	108,373	102,263	19,941	6,275,576
1,431,693	1,348,759	144,228	63,400	12,013	6,914,716
1,687,773	1,512,217	64,685	106,001	30,045	8,197,378
1,340,095	1,519,691	129,314	64,409	182,912	7,568,327
1,425,274	1,445,993	118,392	237,937	174,125	7,885,534
1,494,641	1,496,970	114,722	80,493	218,961	8,517,879
1,401,461	1,523,533	113,843	97,066	206,826	9,709,311
1,408,679	1,610,098	98,784	85,022	153,531	9,962,893

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

<u>Fiscal Year</u>	<u>General Administration</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Parks, Recreation, and Cultural</u>	<u>Health and Welfare</u>	<u>Community Development</u>
2003-04	\$ 271,283	\$ 924,520	\$ 954,979	\$ 35,804	\$ -	\$ 9,425
2004-05	361,205	1,096,548	907,818	34,394	-	31,285
2005-06	427,685	1,220,361	1,302,674	36,844	-	23,490
2006-07	437,281	1,511,221	1,534,847	37,718	-	33,024
2007-08	579,956	1,604,696	1,071,799	41,378	-	28,697
2008-09	691,506	1,634,834	1,078,850	37,984	-	16,352
2009-10	652,316	1,637,784	1,238,459	33,150	6,971	35,085
2010-11	735,357	1,678,911	982,633	43,115	7,305	27,500
2011-12	512,375	1,705,800	1,058,820	174,114	9,272	40,116
2012-13 (2)	606,615	1,761,297	1,577,705	160,335	9,399	55,221

(1) Includes General Fund.

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

Table 3

	<u>Debt Service</u>		<u>Total</u>
\$	339,281	\$	2,535,292
	325,793		2,757,043
	420,071		3,431,125
	417,798		3,971,889
	424,630		3,751,156
	390,146		3,849,672
	368,196		3,971,961
	288,894		3,763,715
	282,187		3,782,684
	265,796		4,436,368

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

<u>Fiscal Year</u>	<u>General Property Taxes</u>	<u>Other Local Taxes</u>	<u>Permits, Privilege Fees, & Regulatory Licenses</u>	<u>Fines and Forfeitures</u>	<u>Revenue from the Use of Money and Property</u>	<u>Miscellaneous</u>
2003-04	\$ 1,019,817	\$ 959,190	\$ 25,022	\$ 28,612	\$ 3,690	\$ 30,654
2004-05	1,025,514	1,031,560	51,912	50,758	12,251	64,288
2005-06	1,300,615	1,193,420	54,227	54,860	65,009	55,754
2006-07	1,436,157	1,207,590	23,989	53,809	58,975	56,770
2007-08	1,497,703	1,370,882	25,761	39,571	46,080	83,697
2008-09	1,456,136	1,515,840	12,155	44,711	57,375	56,319
2009-10	1,415,092	1,450,138	11,546	39,905	73,415	123,349
2010-11	1,509,841	1,501,187	13,715	32,715	71,389	85,346
2011-12	1,428,349	1,525,357	11,351	28,967	72,216	57,580
2012-13	1,416,634	1,614,343	9,065	34,780	67,610	83,481

(1) Includes General Fund.

Table 4

<u>Charges for Services</u>	<u>Inter- governmental</u>	<u>Total</u>
\$ -	\$ 560,978	\$ 2,627,963
-	618,469	2,854,752
-	651,095	3,374,980
-	679,646	3,516,936
-	715,166	3,778,860
-	772,022	3,914,558
-	831,529	3,944,974
-	819,603	4,033,238
70,523	826,612	4,020,955
57,886	958,762	4,242,561

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

<u>Fiscal Year</u>	<u>Total Tax Levy (1,2,3)</u>	<u>Current Tax Collections (1,3)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections (1) (2)</u>	<u>Total Tax Collections</u>
2003-04 (3)	\$ 1,122,258	\$ 1,085,334	96.71%	\$ 13,322	\$ 1,098,656
2004-05 (3)	1,227,258	1,142,620	93.10%	10,098	1,152,718
2005-06 (3)	1,460,119	1,409,165	96.51%	6,926	1,416,091
2006-07 (3)	1,610,384	1,566,569	97.28%	8,486	1,575,055
2007-08 (3)	1,754,568	1,592,494	90.76%	11,914	1,604,408
2008-09 (3)	1,570,074	1,492,353	95.05%	63,311	1,555,664
2009-10 (3)	1,520,815	1,433,595	94.26%	88,877	1,522,472
2010-11 (3)	1,597,836	1,517,593	94.98%	90,515	1,608,108
2011-12 (3)	1,539,343	1,455,015	94.52%	66,824	1,521,839
2012-13 (3)	1,510,934	1,480,446	97.98%	32,151	1,512,597

- (1) Exclusive of penalties.
- (2) Does not include land redemptions.
- (3) Includes Commonwealth of Virginia PPTRA Reimbursement
- (4) Does not include supplements and abatements-only original tax levy

Table 5

<u>Percent of Total Tax Collections to Tax Levy (4)</u>	<u>Outstanding Delinquent Taxes</u>	<u>Percent of Total Tax Collections to Tax Levy</u>
97.90%	\$ 63,344	5.64%
93.93%	119,409	9.73%
96.98%	144,369	9.89%
97.81%	125,554	7.80%
91.44%	337,276	19.22%
99.08%	182,278	11.61%
100.11%	188,670	12.41%
100.64%	189,336	11.85%
98.86%	133,623	8.68%
100.11%	118,836	7.87%

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

Table 6

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation (1)		Total	Assessed vs Fair Market Value
				Real Estate	Personal Property		
2003-04	\$ 235,985	\$ 26,784	\$ 56,140	\$ 14,549	\$ 4	\$ 333,462	100.00%
2004-05	258,311	28,132	39,990	15,521	-	341,954	100.00%
2005-06	386,858	31,324	39,701	12,091	-	469,974	100.00%
2006-07	508,810	36,358	42,576	16,819	-	604,563	100.00%
2007-08	532,774	40,489	33,915	15,116	-	622,294	100.00%
2008-09	548,653	40,501	25,724	14,725	-	629,603	100.00%
2009-10	547,258	38,159	23,230	18,028	-	626,675	100.00%
2010-11	550,613	39,038	28,703	22,845	-	641,199	100.00%
2011-12	552,866	40,134	21,105	22,843	-	636,948	100.00%
2012-13	555,327	40,461	17,530	20,076	-	633,394	100.00%

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

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

Table 7

Fiscal Year	Real Estate	Personal Property	Machinery & Tools
2003-04	0.22	1.11	0.86
2004-05	0.22	1.11	0.86
2005-06	0.22/0.16	1.11	0.86
2006-07	0.16	1.11	0.86
2007-08	0.16	1.11	0.86
2008-09	0.16	1.11	0.86
2009-10	0.16	1.11	0.86
2010-11	0.16	1.11	0.86
2011-12	0.16	1.11	0.86
2012-13	0.16	1.11	0.86

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

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

**Town of Strasburg, Virginia
Principal Taxpayers
At June 30, 2013**

Table 8

Taxpayer	Type of Business	2013 Assessed Valuation	% of Total Assessed Valuation
294 Front Royal LLC	Manufacturing	\$ 11,454,700	18%
King's Plumbing and Heating, Inc.	Rental Property	11,291,400	18%
IAC Corp.	Manufacturing	8,763,800	14%
Homewood at the Shenandoah Valley	Rental and Shopping	6,474,900	10%
Toothman Investments LLC	Real Estate/Rental Property	5,492,200	9%
Massanutten Elderly LLC	Rental Property	5,037,500	8%
SFC Properties LLC	Real Estate/Rental Property	4,055,700	6%
Sunlight Properties LLC	Real Estate/Rental Property	4,052,100	6%
Frank Yeakle III	Rental Property	3,699,000	6%
Terry Dellinger	Rental Property	3,417,000	5%
	Total	\$ 63,738,300	

Town of Strasburg, Virginia
Computation of Legal Debt Margin
For the Fiscal Year Ended June 30, 2013
(in thousands)

Table 9

Total assessed value of taxed real property		\$	555,327
Debt limit-10 percent of assessed value		\$	55,533
Amount of debt applicable to limit			
Gross debt	\$	14,828	
Less: Water and sewer revenue bonds		<u>(13,954)</u>	
		\$	<u>874</u>
Legal debt margin		\$	<u><u>54,659</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Strasburg, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Strasburg, Virginia's basic financial statements, and have issued our report thereon dated November 15, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
November 15, 2013