



**TOWN OF PURCELLVILLE, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007**

TOWN OF PURCELLVILLE, VIRGINIA

COUNCIL

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Director of Planning and Zoning

Samer S. Beidas

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Executive Assistant to Town Manager

Darryl C. Smith, Sr.

Chief of Police

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF PURCELLVILLE, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the Town of Purcellville, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Purcellville, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Purcellville, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2007 on our consideration of the Town of Purcellville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and other required supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Purcellville, Virginia's basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Town of Purcellville, Virginia. Such 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 financial statements of each of the respective individual funds. The statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Fann, Cox Associates

Charlottesville, Virginia
November 26, 2007

Town of Purcellville, Virginia Management's Discussion and Analysis

As management of the Town of Purcellville (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2007. Please read it in conjunction with the Town's basic financial statements, which follow this section.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$58 million (*net assets*). Of this amount, \$15 million (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$.54 million, of which the governmental activities accounted for a \$.45 million decrease and business-type activities accounted for \$.99 million increase.
- The unreserved, undesignated ending fund balance for the Town's governmental fund is \$2.6 million, an increase of \$.4 million over the prior year. This ending fund balance is equal to 38% of the Town's fiscal year 2009 general fund operating budget.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3.8 million, or 61% of governmental fund expenditures less any capital outlay projects funded with bond proceeds.
- The Town's total debt decreased by \$413,698 (2.4%) during the current fiscal year. This is primarily due to scheduled principal repayments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of how the financial position of the Town may be changing. Increases in net assets may indicate an improved financial position; however, even decreases in net assets may reflect a changing manner in which the Town may have used previously accumulated funds.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, (e.g., uncollected taxes and earned but unused vacation leave).

Overview of the Financial Statements: (Continued)

Government-wide financial statements: (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety, and public works. The business-type activities are for public utilities. The government-wide financial statements can be found on pages 10 through 12 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains two governmental funds, a General Fund and a Capital Projects fund. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 13 through 16 of this report.

The Town maintains one type of **Proprietary Fund**. The Town uses *enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements, to account for its public utilities. The basic proprietary fund financial statements can be found on pages 17 through 19 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 37 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning budgetary comparisons for the general fund and the schedule of funding in progress relating to the Town's participation in its defined benefit pension plan. Required supplementary information can be found on pages 38 and 39 of this report.

Overview of the Financial Statements: (Continued)

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$58 million at the close of the most recent fiscal year. A large portion of the Town's net assets (\$43 million, 74% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure machinery and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the Town's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

The following table summarizes the Town's Statement of Net Assets:

**Town of Purcellville, Virginia
Summary of Net Assets
As of June 30, 2007**

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 4,713,661	\$ 4,678,122	\$ 14,924,524	\$ 12,818,563	\$ 19,638,185	\$ 17,496,685
Capital assets	32,742,154	34,742,978	20,526,155	23,424,363	53,268,309	58,167,341
Total assets	\$ 37,455,815	\$ 39,421,100	\$ 35,450,679	\$ 36,242,926	\$ 72,906,494	\$ 75,664,026
Long-term liabilities						
outstanding	\$ 3,127,992	\$ 2,906,306	\$ 13,817,927	\$ 13,112,147	\$ 16,945,919	\$ 16,018,453
Other liabilities	620,174	993,546	333,120	678,413	953,294	1,671,959
Total liabilities	\$ 3,748,166	\$ 3,899,852	\$ 14,151,047	\$ 13,790,560	\$ 17,899,213	\$ 17,690,412
Net assets:						
Invested in capital assets, net of related debt	\$ 31,508,203	\$ 32,879,544	\$ 9,222,830	\$ 10,214,935	\$ 40,731,033	\$ 43,094,479
Unrestricted	2,199,446	2,641,704	12,076,802	12,237,431	14,276,248	14,879,135
Total net assets	\$ 33,707,649	\$ 35,521,248	\$ 21,299,632	\$ 22,452,366	\$ 55,007,281	\$ 57,973,614

At the end of the current fiscal year, the Town is able to report positive balances in both categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type activities.

As noted previously, the Town's overall (government and business-type activities) net assets increased by \$.54 million during the current fiscal year. The overall increase is attributed to the collection of availability fees from the business-type activities.

Government-Wide Financial Analysis: (Continued)

Governmental activities decreased the Town's net assets by \$.45 million. The following table summarizes the Town's Statement of Activities:

**Town of Purcellville, Virginia
Changes in Net Assets
As of June 30, 2007**

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program revenues:						
Charges for services	\$ 227,499	\$ 219,995	\$ 1,901,400	\$ 2,602,852	\$ 2,128,899	\$ 2,822,847
Operating grants and contributions	233,193	247,883	-	-	233,193	247,883
Capital grants and contributions	518,521	574,687	893,000	2,076,400	1,411,521	2,651,087
General revenues:						
Property taxes	2,102,097	2,428,380	-	-	2,102,097	2,428,380
Other taxes	2,659,820	2,799,546	-	-	2,659,820	2,799,546
Unrestricted revenues from the use of money and property	105,679	151,842	533,249	661,445	638,928	813,287
Miscellaneous	72,547	52,916	162,433	135,860	234,980	188,776
Grants and contributions not restricted to specific programs	400,881	210,019	-	-	400,881	210,019
Total revenues	\$ 6,320,237	\$ 6,685,268	\$ 3,490,082	\$ 5,476,557	\$ 9,810,319	\$ 12,161,825
Expenses:						
General government administration	\$ 1,451,606	\$ 1,876,356	\$ -	\$ -	\$ 1,451,606	\$ 1,876,356
Public safety	1,367,893	1,466,000	-	-	1,367,893	1,466,000
Public works	3,474,333	3,286,874	-	-	3,474,333	3,286,874
Parks, recreation and culture	32,704	35,241	-	-	32,704	35,241
Community development	455,350	526,780	-	-	455,350	526,780
Interest on long-term debt	104,799	113,602	-	-	104,799	113,602
Water fund	-	-	1,845,569	2,449,890	1,845,569	2,449,890
Sewer fund	-	-	1,704,589	1,868,553	1,704,589	1,868,553
Total expenses	\$ 6,886,685	\$ 7,304,853	\$ 3,550,158	\$ 4,318,443	\$ 10,436,843	\$ 11,623,296
Increase in net assets before transfers	\$ (566,448)	\$ (619,585)	\$ (60,076)	\$ 1,158,114	\$ (626,524)	\$ 538,529
Transfers	\$ 17,308	\$ 167,302	\$ (17,308)	\$ (167,302)	\$ -	\$ -
Increase (decrease) in net assets	\$ (549,140)	\$ (452,283)	\$ (77,384)	\$ 990,812	\$ (626,524)	\$ 538,529
Net assets-beginning of year	\$ 34,256,789	\$ 35,973,531	\$ 21,377,016	\$ 21,461,554	\$ 55,633,805	\$ 57,435,085
Net assets-end of year	\$ 33,707,649	\$ 35,521,248	\$ 21,299,632	\$ 22,452,366	\$ 55,007,281	\$ 57,973,614

Government-Wide Financial Analysis (Continued)

Generally, net asset changes are for the difference between revenues and expenses. A key element of this decrease follows:

- The decrease in net assets can be attributed to the reporting of depreciation expense, a non-cash expense, in relation to the Town's capital assets. Depreciation expense accounted for \$1.3 million of the decrease.

Business-type activities increased the Town's net assets by \$.99 million. Similar to how changes arise in the governmental activities, business-type activities also experience budgetary differences; however, as a public utility function comprises the Town's business-type activities there is more of a direct correlation to the revenues generated relative to the expenses incurred because of service demands. An increase in capital contributions and usage fees contributed to this increase.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund: The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular *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.

The Town's fiscal year 2007 general fund operating revenues exceeded those of fiscal year 2006 by \$356,000. Revenue categories of growth included property taxes, other taxes, and local government contributions. As indicative of slowing residential development, permit revenues fell. Other revenue categories that declined were State and Federal funding.

In fiscal year 2007, the general fund's operating revenues exceeded expenditures by \$652,000. The capital project expansion was evident and over 60 projects were included in the Town's fiscal year 2007 Capital Improvement Plan. The total general fund outlay for capital projects was \$993,000 in fiscal year 2007, resulting in an overall decline in fund balance of \$341,425.

At the end of the current fiscal year, unreserved fund balance as well as total fund balance of the General Fund was \$3.78 million. As a measure of the General Fund's liquidity, the fund balance represents 61% of total General Fund expenditures.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$12.2 million. The total net assets increased by \$.99 million from the prior year.

General Fund Budgetary Highlights

There was an increase of \$842,718 between the original budget and the final amended budget expenditures. The increase can primarily be attributed to capital projects. During the fiscal year the Town's revenue exceeded budget by \$47,428. Operational cost management was demonstrated by the fact that fiscal year 2007 expenditures were under budget by \$46,951.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$58.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and machinery and equipment as well as construction in progress.

Capital assets, net of accumulated depreciation, are illustrated in the following table:

Town of Purcellville, Virginia
Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Land	\$ 50,000	\$ 50,000	\$ 842,670	\$ 857,675	\$ 892,670	\$ 907,675
Buildings	662,684	630,456	-	-	662,684	630,456
Utility plant in service	-	-	17,205,646	17,015,623	17,205,646	17,015,623
Improvements other than buildings	237,545	345,942	304,700	283,900	542,245	629,842
Infrastructure	30,591,527	31,904,631	-	-	30,591,527	31,904,631
Machinery & Equipment	473,392	511,552	67,545	74,351	540,937	585,903
Vehicles	225,970	218,028	95,104	69,646	321,074	287,674
Construction in progress	501,036	1,082,369	2,010,490	5,123,168	2,511,526	6,205,537
Total	\$ 32,742,154	\$ 34,742,978	\$ 20,526,155	\$ 23,424,363	\$ 53,268,309	\$ 58,167,341

Additional information on the Town's capital assets can be found in Note 4 on pages 28 through 30 of this report.

Long-term debt: At the end of the current fiscal year, the Town had total outstanding debt of \$16.5 million and details are summarized in the following table:

Town of Purcellville, Virginia
Outstanding Debt
For the Year Ended June 30, 2007

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Bonds Payable:						
General obligation bonds	\$ 2,906,550	\$ 2,783,945	\$ 13,758,440	\$ 13,380,615	\$ 16,664,990	\$ 16,164,560
Capital leases	3,147	-	-	-	3,147	-
Compensated absences	218,295	256,927	59,487	110,730	277,782	367,657
Total	\$ 3,127,992	\$ 3,040,872	\$ 13,817,927	\$ 13,491,345	\$ 16,945,919	\$ 16,532,217

Debt associated with governmental activities decreased by \$87,120 while debt associated with business-type activities decreased by \$326,582. This decrease is due to scheduled principal repayments.

The Town is subject to a statutory debt limitation. The legal debt margin is limited to 10% of total assessed value. The margin is computed as all bonded debt and long-term notes except for enterprise indebtedness over total assessed value of taxed real property. The Town was in compliance with debt limitation as of June 30, 2007.

Additional information on the Town's long-term debt and compliance can be found in Note 5.

Economic Factors and Next Year's Budgets and Rates

Over the last year, the Town has seen fiscal changes that have not existed for the last 11 years. This included a slow-down in the booming residential development of the community and a reduction in the assessments of residential property within the Town. The last time the Town experienced this type of downturn was during the period of late 1980's and continued until 1995. There is some expectation that residential assessments may continue to fall in 2008. Based on Loudoun County assessment data for 2007, the average residential taxpayer saw their property tax assessment drop by 3.3%, while business and commercial property assessments increased by 19%. The Town Council equalized the real estate tax rate from \$.17/100 in 2006 to \$.18/100 in 2007. In 2007, the Town's property assessment profile was split at 87% residential and 13% commercial property.

Based on recommendations from the Town's consultants who analyzed operating and capital costs associated with the Town's utility enterprises, the rate structure for water fees was changed from a flat rate structure to an ascending tiered rate structure in July 2006. Under this plan, the fiscal year 2006 water rate of \$4.87 per 1,000 gallons was changed to \$3.44/1,000 gallons up to 6,000 gallons, \$4.58 between 6,000 and 12,000 gallons, \$5.73 between 12,000 and 18,000 gallons, and \$6.87 for over 18,000 gallons. The new tiered rate structure for water fees is intended to encourage water conservation. The sewer rate increased from \$7.09/1,000 gallons in fiscal year 2006 to \$7.25 in fiscal year 2007.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Town of Purcellville, 130 East Main Street, Purcellville, VA 20132.

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BASIC FINANCIAL STATEMENTS

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Government-wide Financial Statements

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Statement of Net Assets
As of June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,382,694	\$ 12,185,761	\$ 15,568,455
Receivables (net of allowance for uncollectibles):			
Taxes receivable	81,538	-	81,538
Accounts receivable	137,588	443,152	580,740
Interest receivable	-	3,041	3,041
Due from other governmental units	116,840	-	116,840
Prepaid expenses	38,951	15,418	54,369
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents (in custody of others)	920,511	171,191	1,091,702
Capital assets (net of accumulated depreciation):			
Land	50,000	857,675	907,675
Buildings and system	630,456	-	630,456
Improvements other than buildings	345,942	283,900	629,842
Machinery and equipment	511,552	74,351	585,903
Vehicles	218,028	69,646	287,674
Infrastructure	31,904,631	-	31,904,631
Utility plant in service	-	17,015,623	17,015,623
Construction in progress	1,082,369	5,123,168	6,205,537
Total assets	\$ 39,421,100	\$ 36,242,926	\$ 75,664,026
LIABILITIES			
Accounts payable	\$ 331,552	\$ 190,443	\$ 521,995
Accrued liabilities	68,702	-	68,702
Customers' deposits	-	28,775	28,775
Accrued interest payable	25,846	79,993	105,839
Deposits held in escrow	432,880	-	432,880
Long-term liabilities:			
Due within one year	129,322	378,330	507,652
Due in more than one year	2,911,550	13,113,019	16,024,569
Total liabilities	\$ 3,899,852	\$ 13,790,560	\$ 17,690,412
NET ASSETS			
Invested in capital assets, net of related debt	\$ 32,879,544	\$ 10,214,935	\$ 43,094,479
Unrestricted	2,641,704	12,237,431	14,879,135
Total net assets	\$ 35,521,248	\$ 22,452,366	\$ 57,973,614

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

TOWN OF PURCELLVILLE, VIRGINIA

Statement of Activities
 For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 1,876,356	\$ 140,718	\$ -	\$ -
Public safety	1,466,000	77,431	136,664	-
Public works	3,286,874	1,846	106,219	574,687
Parks, recreation, and cultural	35,241	-	5,000	-
Community development	526,780	-	-	-
Interest on long-term debt	113,602	-	-	-
Total governmental activities	\$ 7,304,853	\$ 219,995	\$ 247,883	\$ 574,687
Business-type activities:				
Water	\$ 2,449,890	\$ 1,028,062	\$ -	\$ 1,115,400
Sewer	1,868,553	1,574,790	-	961,000
Total business-type activities	\$ 4,318,443	\$ 2,602,852	\$ -	\$ 2,076,400
Total primary government	\$ 11,623,296	\$ 2,822,847	\$ 247,883	\$ 2,651,087

General revenues:
 General property taxes
 Other local taxes:
 Local sales and use tax
 Business licenses
 Utility taxes
 Restaurant food taxes
 Other local taxes
 Unrestricted revenues from use of money and property
 Miscellaneous
 Grants and contributions not restricted to specific programs
 Transfers

 Total general revenues and transfers

 Change in net assets
 Net assets - beginning, adjusted

 Net assets - ending

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,735,638)	\$ -	\$ (1,735,638)
(1,251,905)	-	(1,251,905)
(2,604,122)	-	(2,604,122)
(30,241)	-	(30,241)
(526,780)	-	(526,780)
<u>(113,602)</u>	<u>-</u>	<u>(113,602)</u>
\$ <u>(6,262,288)</u>	\$ <u>-</u>	\$ <u>(6,262,288)</u>
\$ -	\$ (306,428)	\$ (306,428)
<u>-</u>	<u>667,237</u>	<u>667,237</u>
\$ <u>-</u>	\$ <u>360,809</u>	\$ <u>360,809</u>
\$ <u>(6,262,288)</u>	\$ <u>360,809</u>	\$ <u>(5,901,479)</u>
\$ 2,428,380	\$ -	\$ 2,428,380
652,195	-	652,195
525,813	-	525,813
256,927	-	256,927
699,300	-	699,300
665,311	-	665,311
151,842	661,445	813,287
52,916	135,860	188,776
210,019	-	210,019
<u>167,302</u>	<u>(167,302)</u>	<u>-</u>
\$ 5,810,005	\$ 630,003	\$ 6,440,008
(452,283)	990,812	538,529
<u>35,973,531</u>	<u>21,461,554</u>	<u>57,435,085</u>
\$ <u>35,521,248</u>	\$ <u>22,452,366</u>	\$ <u>57,973,614</u>

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Fund Financial Statements

Balance Sheet
 Governmental Funds
 As of June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (Note 2)	\$ 3,278,380	\$ 104,314	\$ 3,382,694
Receivables (net of allowance for uncollectibles):			
Taxes receivable (Note 1)	81,538	-	81,538
Accounts receivable	137,588	-	137,588
Due from other governmental units (Note 3)	116,840	-	116,840
Prepaid expenses	38,951	-	38,951
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	920,511	-	920,511
Total assets	<u>\$ 4,573,808</u>	<u>\$ 104,314</u>	<u>\$ 4,678,122</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 227,238	\$ 104,314	\$ 331,552
Accrued liabilities	68,702	-	68,702
Unearned revenue	64,957	-	64,957
Customer deposits	432,880	-	432,880
Total liabilities	<u>\$ 793,777</u>	<u>\$ 104,314</u>	<u>\$ 898,091</u>
Fund balances:			
Unreserved, designated reported in:			
General fund	\$ 260,116	\$ -	\$ 260,116
Unreserved, undesignated reported in:			
General fund	2,599,404	-	2,599,404
Reserved for future capital outlay	920,511	-	920,511
Total fund balances	<u>\$ 3,780,031</u>	<u>\$ -</u>	<u>\$ 3,780,031</u>
Total liabilities and fund balances	<u>\$ 4,573,808</u>	<u>\$ 104,314</u>	<u>\$ 4,678,122</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Assets
 As of June 30, 2007

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 3,780,031
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	34,742,978
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	39,111
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,040,872)</u>
Net assets of governmental activities	<u>\$ 35,521,248</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2007

	General	Capital Projects	Total
REVENUES			
General property taxes	\$ 2,409,596	\$ -	\$ 2,409,596
Other local taxes	2,799,546	-	2,799,546
Permits, privilege fees, and regulatory licenses	142,564	-	142,564
Fines and forfeitures	77,431	-	77,431
Revenue from the use of money and property	151,842	-	151,842
Miscellaneous	52,917	-	52,917
Intergovernmental revenues:			
Local government	204,000	-	204,000
Commonwealth	824,384	-	824,384
Federal	4,205	-	4,205
Total revenues	<u>\$ 6,666,485</u>	<u>\$ -</u>	<u>\$ 6,666,485</u>
EXPENDITURES			
Current:			
General government administration	\$ 1,903,006	\$ -	\$ 1,903,006
Public safety	1,393,867	-	1,393,867
Public works	2,093,861	-	2,093,861
Parks, recreation, and cultural	21,720	-	21,720
Community development	529,779	-	529,779
Capital outlay	-	993,440	993,440
Debt service:			
Principal retirement	125,752	-	125,752
Interest and other fiscal charges	113,786	-	113,786
Total expenditures	<u>\$ 6,181,771</u>	<u>\$ 993,440</u>	<u>\$ 7,175,211</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 484,714</u>	<u>\$ (993,440)</u>	<u>\$ (508,726)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 167,301	\$ 993,440	\$ 1,160,741
Transfers out	<u>(993,440)</u>	<u>-</u>	<u>(993,440)</u>
Total other financing sources (uses)	<u>\$ (826,139)</u>	<u>\$ 993,440</u>	<u>\$ 167,301</u>
Net change in fund balances	\$ (341,425)	\$ -	\$ (341,425)
Fund balances - beginning, adjusted	<u>4,121,456</u>	<u>-</u>	<u>4,121,456</u>
Fund balances - ending	<u>\$ 3,780,031</u>	<u>\$ -</u>	<u>\$ 3,780,031</u>

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

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, 2007

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

Net change in fund balances - total governmental funds	\$ (341,425)
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 depreciation exceeded capital outlays in the current period.	(106,555)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	18,784
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	125,752
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>(148,839)</u>
Change in net assets of governmental activities	<u><u>\$ (452,283)</u></u>

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

Statement of Net Assets
 Proprietary Funds
 As of June 30, 2007

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,459,283	\$ 6,726,478	\$ 12,185,761
Prepaid expenses	6,778	8,640	15,418
Receivables, net of allowances for uncollectibles			
Accounts	179,995	263,157	443,152
Accrued interest	1,317	1,724	3,041
Total current assets	\$ 5,647,373	\$ 6,999,999	\$ 12,647,372
Noncurrent assets:			
Restricted current assets:			
Cash and cash equivalents (in custody of others)	\$ 95,982	\$ 75,209	\$ 171,191
Capital assets:			
Utility plant in service	8,913,331	10,816,213	19,729,544
Land	490,575	367,100	857,675
Improvements other than buildings	445,000	-	445,000
Vehicles	69,028	111,732	180,760
Machinery and equipment	73,609	62,125	135,734
Construction in progress	1,421,847	3,701,321	5,123,168
Less accumulated depreciation	(1,699,720)	(1,347,798)	(3,047,518)
Total capital assets	\$ 9,713,670	\$ 13,710,693	\$ 23,424,363
Total noncurrent assets	\$ 9,809,652	\$ 13,785,902	\$ 23,595,554
Total assets	\$ 15,457,025	\$ 20,785,901	\$ 36,242,926
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 119,392	\$ 71,051	\$ 190,443
Customers' deposits	28,775	-	28,775
Accrued interest payable	51,311	28,682	79,993
Bonds payable - current portion	212,594	165,736	378,330
Total current liabilities	\$ 412,072	\$ 265,469	\$ 677,541
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 4,942,777	\$ 8,059,512	\$ 13,002,289
Compensated absences	52,852	57,878	110,730
Total noncurrent liabilities	\$ 4,995,629	\$ 8,117,390	\$ 13,113,019
Total liabilities	\$ 5,407,701	\$ 8,382,859	\$ 13,790,560
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4,654,281	\$ 5,560,654	\$ 10,214,935
Unrestricted	5,395,043	6,842,388	12,237,431
Total net assets	\$ 10,049,324	\$ 12,403,042	\$ 22,452,366
Total liabilities and net assets	\$ 15,457,025	\$ 20,785,901	\$ 36,242,926

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2007

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services and connection fees	\$ 1,010,623	\$ 1,518,364	\$ 2,528,987
Other revenues	17,439	56,426	73,865
Miscellaneous	6,773	4,679	11,452
Total operating revenues	\$ 1,034,835	\$ 1,579,469	\$ 2,614,304
OPERATING EXPENSES			
Personnel services	\$ 596,888	\$ 602,010	\$ 1,198,898
Employee benefits	227,012	224,072	451,084
Plant operations	179,093	331,795	510,888
Well operations	161,092	-	161,092
Pump station operations	-	14,125	14,125
Equipment and vehicles	19,892	19,718	39,610
Depreciation	212,041	212,388	424,429
Capital outlay - non-capitalizable expenses	731,149	6,184	737,333
Other	65,308	51,886	117,194
Total operating expenses	\$ 2,192,475	\$ 1,462,178	\$ 3,654,653
Operating income (loss)	\$ (1,157,640)	\$ 117,291	\$ (1,040,349)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 293,951	\$ 367,494	\$ 661,445
Cellular lease	124,408	-	124,408
Interest expense	(257,415)	(406,375)	(663,790)
Total nonoperating revenues (expenses)	\$ 160,944	\$ (38,881)	\$ 122,063
Income before contributions and transfers	\$ (996,696)	\$ 78,410	\$ (918,286)
Contributed capital - availability fees	\$ 1,115,400	\$ 961,000	\$ 2,076,400
Transfers out	(83,651)	(83,651)	(167,302)
Change in net assets	\$ 35,053	\$ 955,759	\$ 990,812
Total net assets - beginning, adjusted	10,014,271	11,447,283	21,461,554
Total net assets - ending	\$ 10,049,324	\$ 12,403,042	\$ 22,452,366

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2007

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 942,291	\$ 1,363,464	\$ 2,305,755
Payments to suppliers	(1,211,842)	(394,369)	(1,606,211)
Payments to and on behalf of employees	(788,152)	(810,587)	(1,598,739)
Net cash provided (used) by operating activities	\$ (1,057,703)	\$ 158,508	\$ (899,195)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cellular lease	\$ 124,408	\$ -	\$ 124,408
Transfers to other funds	(83,651)	(83,651)	(167,302)
Net cash provided (used) by noncapital financing activities	\$ 40,757	\$ (83,651)	\$ (42,894)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	\$ (694,565)	\$ (2,481,563)	\$ (3,176,128)
Availability fees	1,115,400	961,000	2,076,400
Retirements of long-term indebtedness	(213,465)	(164,361)	(377,826)
Interest payments	(257,415)	(406,375)	(663,790)
Net cash provided (used) by capital and related financing activities	\$ (50,045)	\$ (2,091,299)	\$ (2,141,344)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 293,951	\$ 367,494	\$ 661,445
Net cash provided (used) by investing activities	\$ 293,951	\$ 367,494	\$ 661,445
Net increase (decrease) in cash and cash equivalents	\$ (773,040)	\$ (1,648,948)	\$ (2,421,988)
Cash and cash equivalents - beginning	6,328,305	8,450,635	14,778,940
Cash and cash equivalents - ending	\$ 5,555,265	\$ 6,801,687	\$ 12,356,952
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (1,157,640)	\$ 117,291	\$ (1,040,349)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	212,041	212,388	424,429
(Increase) decrease in accounts receivable	(84,604)	(216,005)	(300,609)
Increase (decrease) in compensated absences	35,748	15,495	51,243
Increase (decrease) in accounts payable	(68,791)	16,214	(52,577)
Increase (decrease) accrued interest payable	(2,397)	13,125	10,728
Increase (decrease) customer deposits	7,940	-	7,940
Total adjustments	\$ 99,937	\$ 41,217	\$ 141,154
Net cash provided (used) by operating activities	\$ (1,057,703)	\$ 158,508	\$ (899,195)

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

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007

Note 1—Summary of Significant Accounting Policies:

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for general purpose financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organizations governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Purcellville, Virginia.

Individual Component Unit Disclosures

The Town has no component units.

Related Organizations

The Town has no related organizations.

Jointly Governed Organizations

The Town has no jointly governed organizations.

B. Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

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

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

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Government-wide and Fund Financial Statements: (Continued)

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

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 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.

The government-wide statement of activities reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. 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. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Similar Trust Funds. The Governmental Fund measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The individual Governmental Funds are:

General Fund

The General Fund is the general operating fund of the Town. The fund accounts for all revenues and expenditures of the Town which are not accounted for in other funds.

Capital Project Fund

The Capital Projects Fund accounts for all capital related expenditures of the Town.

2. Proprietary Funds account for activities similar to those found in the private business sector. The measurement focus is upon determination of net income. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. Currently the Town's Water and Sewer Funds are accounted for as enterprise funds.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

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

Enterprise Funds: (Continued)

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 Town's enterprise funds are charges to customers for sales and services. The enterprise funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting:

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

1. Prior to March 30, 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 fund level. The appropriation for each fund can be revised only by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that enterprise fund budgets are adopted on the modified accrual basis of accounting.
7. Appropriations lapse on June 30 for all Town units.
8. All budget data presented in the accompanying financial statements is as amended and approved by Town Council.
9. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not part of the Town's accounting system.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

E. Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less.

F. Restricted Assets

Proceeds from bonds issued for general and enterprise funds are classified as restricted assets on the Balance Sheet and Statement of Net Assets because their use is limited to future capital outlay. These funds are maintained in a separate bank account under the care of a trustee.

G. Investments:

Investments are stated at fair market value. Certificates of deposits, money market mutual funds and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

H. Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, infrastructure, vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not included in the capital assets of the Government-wide statements or capitalized in the proprietary funds.

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 attributable to capitalized assets for the year ended June 30, 2007 was immaterial.

Depreciation for capital assets is computed over the following useful lives using the straight line method.

Buildings	50 Years
Utility Plant & Lines	50 Years
Automobiles	5-7 Years
Equipment	7-10 Years
Infrastructure	75 Years

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

I. Compensated Absences:

Vested or accumulated vacation leave is reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Assets. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “terminal leave” prior to retirement.

J. Long-term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities. 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, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Allowance for Uncollectible Accounts:

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowances amounted to approximately \$1,013 at June 30, 2007 for uncollectible local property taxes.

L. Property Taxes

Real property is assessed by Loudoun County, Virginia at its value on January 1 and is payable semi-annually on December 5th and June 5th. Personal property taxes are assessed by Loudoun County, Virginia as of January 1 and are payable on December 5th. Taxes attach as an enforceable lien as of the date assessed. The Town bills and collects its own property taxes based on the assessed values provided by the County.

M. 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.

N. Restricted & Unrestricted Net Assets

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

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

O. Net Assets

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

Note 2—Deposits and Investments:

Deposits:

All cash of the primary government is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan Institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments:

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

Custodial Credit Risk (Investments):

To protect the Town against potential fraud, the investment policy states that the assets of the Town shall be secured through third-party custody and safe-keeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery vs. payment procedure.

The Town’s investments at June 30, 2007 were held by the Town or in the Town’s name by the Town’s custodial banks.

Credit Risk of Debt Securities:

The Town’s investment policy states that no individual investments shall be undertaken that jeopardizes the capital position of the Town or does not bear the full faith and credit of the United States government or is not fully collateralized or insured.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 2—Deposits and Investments: (Continued)

Credit Risk of Debt Securities: (Continued)

The Town's rated debt investments as of June 30, 2007 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Locality's Rated Debt Investments

<u>Rated Debt Investments Value</u>	<u>Fair Quality Ratings</u>				
	<u>AAAm</u>	<u>AAA</u>	<u>A</u>	<u>A1</u>	<u>Unrated</u>
Local Government Investment Pool	\$ 10,664,047	\$ -	\$ -	\$ -	\$ -
State Non-Arbitrage Pool	1,091,702	-	-	-	-
Total	\$ 11,755,749	\$ -	\$ -	\$ -	\$ -

Concentration of Credit Risk:

The Town does not have an investment policy regarding the concentration of credit risk.

The Town had investments at June 30, 2007, with more than 5 percent of the total in the securities underlying the Repurchase Agreement with BB&T bank, the Local Government Investment Pool and the State Non-Arbitrage Pool. These investments represented 7 percent, 67 percent and 26 percent, respectively of total investments.

Interest Rate Risk:

The Town's investment policy prohibits investing in instruments with a maturity date of greater than one year from the date of purchase.

Investment Maturities (in years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10 Years +</u>
Repurchase Agreements:					
U.S. Treasuries	\$ 4,178,181	\$ 4,178,181	\$ -	\$ -	\$ -
Total	\$ 4,178,181	\$ 4,178,181	\$ -	\$ -	\$ -

External Investment Pools

The fair value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) are the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 3—Due from Other Governmental Units:

County of Loudoun:	
Local Sales Tax	\$ <u>116,840</u>
Total	\$ <u><u>116,840</u></u>

Note 4—Capital Assets:

Governmental Funds

A summary of changes in capital assets at June 30, 2007 follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	<u>501,036</u>	<u>691,724</u>	<u>110,391</u>	<u>1,082,369</u>
Total capital assets not being depreciated	\$ <u>551,036</u>	\$ <u>691,724</u>	\$ <u>110,391</u>	\$ <u>1,132,369</u>
Capital assets being depreciated:				
Buildings	\$ 1,047,880	\$ -	\$ -	\$ 1,047,880
Improvements other than buildings	344,637	115,390	-	460,027
Machinery and equipment	1,026,518	191,270	-	1,217,788
Vehicles	520,943	81,887	-	602,830
Infrastructure	<u>48,710,558</u>	<u>195,295</u>	<u>-</u>	<u>48,905,853</u>
Subtotal	\$ 51,650,536	\$ 583,842	\$ -	\$ 52,234,378
Less: accumulated depreciation for:				
Buildings	\$ (385,196)	\$ (32,228)	\$ -	\$ (417,424)
Improvements other than buildings	(89,803)	(24,282)	-	(114,085)
Machinery and equipment	(568,128)	(138,108)	-	(706,236)
Vehicles	(279,971)	(104,831)	-	(384,802)
Infrastructure	<u>(15,918,550)</u>	<u>(1,082,672)</u>	<u>-</u>	<u>(17,001,222)</u>
Total accumulated depreciation	\$ <u>(17,241,648)</u>	\$ <u>(1,382,121)</u>	\$ <u>-</u>	\$ <u>(18,623,769)</u>
Net capital assets being depreciated	\$ <u>34,408,888</u>	\$ <u>(798,279)</u>	\$ <u>-</u>	\$ <u>33,610,609</u>
Capital assets, net	\$ <u><u>34,959,924</u></u>	\$ <u><u>(106,555)</u></u>	\$ <u><u>110,391</u></u>	\$ <u><u>34,742,978</u></u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 4—Capital Assets: (Continued)

Enterprise Funds (Business-type Activities)

A summary of changes in capital assets at June 30, 2007 follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 842,670	\$ 15,005	\$ -	\$ 857,675
Construction in progress	<u>2,010,490</u>	<u>3,112,678</u>	<u>-</u>	<u>5,123,168</u>
Total capital assets not being depreciated	<u>\$ 2,853,160</u>	<u>\$ 3,127,683</u>	<u>\$ -</u>	<u>\$ 5,980,843</u>
Capital assets being depreciated:				
Utility plant in service	\$ 19,557,239	\$ 172,305	\$ -	\$ 19,729,544
Improvements other than buildings	445,000	-	-	445,000
Vehicles	180,760	-	-	180,760
Machinery and equipment	<u>113,085</u>	<u>22,649</u>	<u>-</u>	<u>135,739</u>
Subtotal	<u>\$ 20,296,084</u>	<u>\$ 194,954</u>	<u>\$ -</u>	<u>\$ 20,491,043</u>
Less: accumulated depreciation for:				
Utility plant in service	\$ (2,351,592)	\$ (362,329)	\$ -	\$ (2,713,921)
Improvements other than buildings	(140,300)	(20,800)	-	(161,100)
Vehicles	(85,657)	(25,457)	-	(111,114)
Machinery and equipment	<u>(45,540)</u>	<u>(15,843)</u>	<u>-</u>	<u>(61,383)</u>
Total accumulated depreciation	<u>\$ (2,623,089)</u>	<u>\$ (424,429)</u>	<u>\$ -</u>	<u>\$ (3,047,518)</u>
Net capital assets being depreciated	<u>\$ 17,672,995</u>	<u>\$ (229,475)</u>	<u>\$ -</u>	<u>\$ 17,443,520</u>
Capital assets, net	<u>\$ 20,526,155</u>	<u>\$ 2,898,208</u>	<u>\$ -</u>	<u>\$ 23,424,363</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 4—Capital Assets: (Continued)

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

Governmental activities:

General government	\$	97,390
Public safety		72,413
Public works (Highways and streets)		1,211,796
Parks and recreation		<u>522</u>
Total governmental activities	\$	<u>1,382,121</u>
Enterprise funds	\$	<u>424,429</u>

Note 5—Long—Term Debt:

Governmental Activities:

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

Year Ending June 30,	Bonds	
	Principal	Interest
2008	\$ 129,322	\$ 97,113
2009	133,828	92,492
2010	138,487	87,711
2011	143,400	82,761
2012	148,469	77,635
2013-2017	824,273	304,734
2018-2021	<u>1,266,166</u>	<u>128,756</u>
Total	\$ <u>2,783,945</u>	\$ <u>871,202</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 5—Long—Term Debt: (Continued)

Changes in Long—term Obligations:

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2007:

	<u>Capital Leases</u>	<u>Bonds Payable</u>	<u>Compensated Absences</u>	<u>Total</u>
Long-term debt payable at July 1, 2006	\$ 3,147	\$ 2,906,550	\$ 218,295	\$ 3,127,992
Increases:				
Issuances	-	-	38,632	38,632
Decreases:				
Retirements	<u>3,147</u>	<u>122,605</u>	<u>-</u>	<u>125,752</u>
Long-term debt payable at June 30, 2007	<u>\$ -</u>	<u>\$ 2,783,945</u>	<u>\$ 256,927</u>	<u>\$ 3,040,872</u>

Details of Long-term Indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Bonds Payable:		
\$835,133 General Obligation Refunding Bond Series 2003 dated May 22, 2003 with principal payable annually and interest payable semi-annually, bonds bearing interest at 3.27% maturing October 1, 2017.	\$ 637,945	\$ 49,122
\$2,233,000 General Obligation Bond Series 2005A maturing annually in payments of \$127,853 initially with increases of \$5,000 to \$10,000 until the final installment of \$856,590 due 2020 including interest at 3.659%, interest only payments, at 3.659%, are also due annually with the amount determined by the outstanding balance.	<u>2,146,000</u>	<u>80,200</u>
Total Bonds Payable	<u>\$ 2,783,945</u>	<u>\$ 129,322</u>
Compensated Absences (Note 6)	<u>\$ 256,927</u>	<u>\$ -</u>
Total general long-term obligation debt	<u>\$ 3,040,872</u>	<u>\$ 129,322</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 5—Long—Term Debt: (Continued)

Enterprise Activities:

Annual requirements to amortize the Town’s enterprise indebtedness and related interest are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2008	\$ 378,130	\$ 635,221
2009	399,268	616,980
2010	415,940	597,669
2011	438,164	577,545
2012	455,857	556,302
2013-2017	2,641,717	2,426,056
2018-2022	3,753,668	1,670,973
2023-2027	1,470,529	1,059,191
2028-2032	1,843,114	636,937
2033-2037	1,584,232	169,926
Total	\$ <u>13,380,619</u>	\$ <u>8,946,800</u>

Changes in Long-term Obligations:

The following is a summary of long-term debt transactions of the Town’s enterprise activities for the year ended June 30, 2007:

	General Obligation Bonds	Compensated Absences	Total
Long-Term Debt payable at July 1, 2006	\$ 13,758,440	\$ 59,487	\$ 13,817,927
Increases	-	51,243	51,243
Retirements:			
General Obligation Bonds	<u>377,821</u>	<u>-</u>	<u>377,821</u>
Long-Term Debt Payable at June 30, 2007	\$ <u>13,380,619</u>	\$ <u>110,730</u>	\$ <u>13,491,349</u>

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 5—Long—Term Debt: (Continued)

Details of Long-term Obligations:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$1,230,080 General Obligation Water and Sewer Bond, Series 1996 (Rural Development) maturing monthly in payments of \$6,299 through October 18, 2036 including 5.375% interest, payable from the water fund.	\$ 1,025,142	\$ 21,000
\$7,304,000 General Obligation Water and Sewer Bond, Series 1999 (Rural Development) maturing monthly in payments of \$35,863 through June 24, 2039 including 5% interest, payable from the sewer fund.	6,590,777	103,230
\$2,865,000 General Obligation Water and Sewer Bond, Series 2000 (VRA) maturing annually with principal payable at 100,000 initially, with increases in \$5,000-\$10,000 intervals until the final principal payment installments of \$240,000, due 2020 with interest rates ranging from 4.80%-5.60%, payable from the water fund.	2,315,000	125,000
\$5,822,500 General Obligation Bond Series 2005B maturing in payments of \$205,470 annually initially with increases in \$5,000 to \$10,000 intervals until the final installment of \$1,376,939, due 2020 including 3.659% interest. Interest only payments, at 3.659% are also due annually in an amount determined by the outstanding bond balance. Both are payable from the water and sewer funds.	<u>3,449,700</u>	<u>128,900</u>
Total	\$ 13,380,619	\$ 378,130
Compensated Absences (Note 6)	<u>\$ 110,730</u>	<u>\$ -</u>
Total enterprise debt	<u>\$ 13,491,349</u>	<u>\$ 378,130</u>

Note 6—Claims, Judgments and Compensated Absences:

In accordance with GASB Statement 16 "Accounting for Compensated Absences," the Town has accrued liabilities arising from compensated absences.

Town employees earn annual leave at various rates. No benefits or pay is received for unused sick leave upon termination, except for employees who retire under VRS from the Town in good standing are paid for 25% of their sick leave balance. Accumulated vacation is paid upon termination. The Town's general fund has outstanding accrued leave pay totaling \$256,927 and the Enterprise Funds have outstanding accrued leave pay of \$110,730.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 7—Defined Benefit Pension Plan:

A. 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)

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. 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 that report may be obtained by writing to the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% 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 June 30, 2007 was 7.85% of the annual covered payroll.

For fiscal year ended 2007, the Town's annual pension cost of \$253,431 (does not include the portion of the employee share assumed by the Town which was \$161,421) was equal to the Town's required and actual contributions. The required contributions were determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 7—Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost and Net Pension Obligation:

Contribution rates:	
Employer	7.85%
Plan members	5.00%
Annual pension cost	\$253,431
Contributions made	\$253,431
Actuarial valuation date	06/30/05
Actuarial cost method	Entry age, normal
Amortization method	Level percentage of pay, open
Payroll growth rate	3.00%
Remaining amortization period	21 Years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return ¹	7.5%
Projected salary increases ¹	
1) Non-LEO	3.5% to 5.73%
2) LEO employees	3.5% to 4.71%
Cost-of-living adjustments	2.5%
¹ Includes inflation at	2.5%

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/07	\$ 253,431	100%	\$ -
06/30/06	288,580	100%	-
06/30/05	224,641	100%	-

Annual pension costs include employer contributions and employee contributions assumed by the employer.

TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 8—Deferred Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue is comprised of the following:

A. Deferred Property Tax Revenue

Deferred revenue representing deferred property tax revenues totaled \$64,957 at June 30, 2007.

Note 9—Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the association for its workers compensation insurance coverage. 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.

The Town continues to carry commercial insurance for all other risks of loss, including general liability and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10—Reserved and Designated Fund Balances:

Fund balances have been designated for the following purposes:

Main Street corrections	\$ <u>260,116</u>
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Fund balances have been reserved for the following purposes:

Future capital outlay	\$ <u>920,511</u>
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TOWN OF PURCELLVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2007 (Continued)

Note 11—Restatement of Equity:

A restatement of fund balance was necessary to adjust for prior year accounts payable in the general fund:

	<u>Adjustment</u>
Fund balance, June 30, 2006	\$ 40,733,343
Add: Prior year accounts payable	<u>48,113</u>
Fund balance, June 30, 2006, as adjusted	<u>\$ 40,781,456</u>

A restatement of net assets for the primary government was necessary to adjust for the prior year accounts payable. Net assets were also adjusted for streets dedicated to the Town in prior years and other infrastructure asset corrections.

Additionally, a restatement of net assets of the business-type activities was necessary to adjust for prior year accounts payable:

	<u>Primary</u>	<u>Water</u>	<u>Sewer</u>
Net assets, June 30, 2006	\$ 33,707,649	\$ 9,857,815	\$ 11,441,817
Add: Accounts payable adjustment	48,113	156,456	5,466
Add: Capital asset adjustments	<u>2,217,769</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 35,973,531</u>	<u>\$ 10,014,271</u>	<u>\$ 11,447,283</u>

REQUIRED SUPPLEMENTARY INFORMATION

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 2,251,254	\$ 2,251,254	\$ 2,409,596	\$ 158,342
Other local taxes	2,485,000	2,485,000	2,799,546	314,546
Permits, privilege fees, and regulatory licenses	101,000	101,000	142,564	41,564
Fines and forfeitures	100,000	100,000	77,431	(22,569)
Revenue from the use of money and property	25,000	25,000	151,842	126,842
Miscellaneous	58,000	68,000	52,917	(15,083)
Intergovernmental revenues:				
Local government	104,000	104,000	204,000	100,000
Commonwealth	1,401,869	1,426,803	824,384	(602,419)
Federal	58,000	58,000	4,205	(53,795)
Total revenues	\$ 6,584,123	\$ 6,619,057	\$ 6,666,485	\$ 47,428
EXPENDITURES				
Current:				
General government administration	\$ 1,595,384	\$ 1,841,918	\$ 1,903,006	\$ (61,088)
Public safety	1,356,623	1,392,457	1,393,867	(1,410)
Public works	2,150,430	2,153,980	2,093,861	60,119
Parks, recreation, and cultural	30,500	30,500	21,720	8,780
Community development	598,231	602,631	529,779	72,852
Debt service:				
Principal retirement	100,000	100,000	125,752	(25,752)
Interest and other fiscal charges	107,236	107,236	113,786	(6,550)
Total expenditures	\$ 5,938,404	\$ 6,228,722	\$ 6,181,771	\$ 46,951
Excess (deficiency) of revenues over (under) expenditures	\$ 645,719	\$ 390,335	\$ 484,714	\$ 94,379
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 294,068	\$ 646,452	\$ 167,301	\$ (479,151)
Transfers out	(3,537,700)	(3,537,700)	(993,440)	2,544,260
Proceeds from the issuance of debt	2,500,913	2,500,913	-	(2,500,913)
Total other financing sources (uses)	\$ (742,719)	\$ (390,335)	\$ (826,139)	\$ (435,804)
Net change in fund balances	\$ (97,000)	\$ -	\$ (341,425)	\$ (341,425)
Fund balances - beginning, adjusted	97,000	-	4,121,456	4,121,456
Fund balances - ending	\$ -	\$ -	\$ 3,780,031	\$ 3,780,031

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

Virginia Retirement System
 Schedule of Pension Funding Progress
 For the Year Ended June 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a) (c)	Funded Ratio (a/b) (d)	Annual Covered Payroll (e)	UAAL as % of Covered Payroll (c/e) (f)
06/30/04	\$ 2,886,792	\$ 3,286,433	\$ 399,641	87.8%	\$ 2,039,284	19.6%
06/30/05	3,274,014	4,514,146	1,240,132	72.5%	2,282,942	54.3%
06/30/06	3,766,752	4,043,056	276,304	93.2%	2,984,061	9.3%

Supporting Schedules

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,003,254	\$ 2,003,254	\$ 2,058,529	\$ 55,275
Personal property taxes	234,000	234,000	323,913	89,913
Penalties and interest	14,000	14,000	27,154	13,154
Total general property taxes	<u>\$ 2,251,254</u>	<u>\$ 2,251,254</u>	<u>\$ 2,409,596</u>	<u>\$ 158,342</u>
Other local taxes:				
Local sales and use taxes	\$ 440,000	\$ 440,000	\$ 652,195	\$ 212,195
Communications tax	-	-	79,249	79,249
Cigarette taxes	270,000	270,000	228,777	(41,223)
Business license taxes	525,000	525,000	525,813	813
Utility license taxes	300,000	300,000	256,927	(43,073)
Auto decals	130,000	130,000	128,959	(1,041)
Bank franchise taxes	140,000	140,000	199,561	59,561
Cable franchise taxes	45,000	45,000	28,765	(16,235)
Restaurant food taxes	635,000	635,000	699,300	64,300
Total other local taxes	<u>\$ 2,485,000</u>	<u>\$ 2,485,000</u>	<u>\$ 2,799,546</u>	<u>\$ 314,546</u>
Permits, privilege fees, and regulatory licenses:				
Zoning fees	\$ 100,000	\$ 100,000	\$ 140,718	\$ 40,718
Proffers	1,000	1,000	1,846	846
Total permits, privilege fees, and regulatory licenses	<u>\$ 101,000</u>	<u>\$ 101,000</u>	<u>\$ 142,564</u>	<u>\$ 41,564</u>
Fines and forfeitures:				
Police fines	\$ 100,000	\$ 100,000	\$ 77,431	\$ (22,569)
Total fines and forfeitures	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 77,431</u>	<u>\$ (22,569)</u>
Revenue from use of money and property:				
Interest	\$ 25,000	\$ 25,000	\$ 151,842	\$ 126,842
Total revenue from use of money and property	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 151,842</u>	<u>\$ 126,842</u>
Miscellaneous revenue:				
Miscellaneous	\$ 32,000	\$ 32,000	\$ 23,056	\$ (8,944)
Proceeds from sales of property	5,000	15,000	221	(14,779)
Insurance dividend	-	-	616	616
Community events sign	-	-	1,875	1,875
Law enforcement reimbursement from Loudoun County	20,000	20,000	24,156	4,156
Vehicle compensation reimbursement	1,000	1,000	1,053	53
Total miscellaneous revenue	<u>\$ 58,000</u>	<u>\$ 68,000</u>	<u>\$ 52,917</u>	<u>\$ (15,083)</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Intergovernmental revenue:				
Gasoline tax funding from Loudoun County	\$ 104,000	\$ 104,000	\$ 104,000	\$ -
14th street funding from Loudoun County	-	-	100,000	100,000
Total local intergovernmental revenue	<u>\$ 104,000</u>	<u>\$ 104,000</u>	<u>\$ 204,000</u>	<u>\$ 100,000</u>
Total revenue from local sources	<u>\$ 5,124,254</u>	<u>\$ 5,134,254</u>	<u>\$ 5,837,896</u>	<u>\$ 703,642</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 5,000	\$ 5,000	\$ 2,101	\$ (2,899)
Wine taxes	-	-	2,202	2,202
Personal property tax relief funds	201,000	201,000	203,216	2,216
Total noncategorical aid	<u>\$ 206,000</u>	<u>\$ 206,000</u>	<u>\$ 207,519</u>	<u>\$ 1,519</u>
Categorical aid:				
Shared expenses:				
Aid to Police	\$ 126,000	\$ 150,934	\$ 126,220	\$ (24,714)
Total shared expenses	<u>\$ 126,000</u>	<u>\$ 150,934</u>	<u>\$ 126,220</u>	<u>\$ (24,714)</u>
Other categorical aid:				
Arts grant	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Fire programs fund	6,000	6,000	8,693	2,693
VDOT grants	590,019	590,019	30,205	(559,814)
Highway maintenance funds	463,850	463,850	444,482	(19,368)
Litter control grant	5,000	5,000	2,219	(2,781)
Other categorical aid	-	-	46	46
Total other categorical aid	<u>\$ 1,069,869</u>	<u>\$ 1,069,869</u>	<u>\$ 490,645</u>	<u>\$ (579,224)</u>
Total categorical aid	<u>\$ 1,195,869</u>	<u>\$ 1,220,803</u>	<u>\$ 616,865</u>	<u>\$ (603,938)</u>
Total revenue from the Commonwealth	<u>\$ 1,401,869</u>	<u>\$ 1,426,803</u>	<u>\$ 824,384</u>	<u>\$ (602,419)</u>
Revenue from the federal government:				
Payments in lieu of taxes	\$ -	\$ -	\$ 2,500	\$ 2,500
Categorical aid:				
Other categorical	\$ 58,000	\$ 58,000	\$ 1,705	\$ (56,295)
Total categorical aid	<u>\$ 58,000</u>	<u>\$ 58,000</u>	<u>\$ 1,705</u>	<u>\$ (56,295)</u>
Total revenue from the federal government	<u>\$ 58,000</u>	<u>\$ 58,000</u>	<u>\$ 4,205</u>	<u>\$ (53,795)</u>
Total General Fund	<u><u>\$ 6,584,123</u></u>	<u><u>\$ 6,619,057</u></u>	<u><u>\$ 6,666,485</u></u>	<u><u>\$ 47,428</u></u>

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2007

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 40,899	\$ 40,899	\$ 45,665	\$ (4,766)
General and financial administration:				
Administration	\$ 907,065	\$ 964,730	\$ 979,028	\$ (14,298)
Building administration	65,800	65,800	70,974	(5,174)
Legal services	100,000	284,119	337,759	(53,640)
Independent auditor	25,000	25,000	15,100	9,900
Finance	456,620	461,370	454,480	6,890
Total general and financial administration	\$ 1,554,485	\$ 1,801,019	\$ 1,857,341	\$ (56,322)
Total general government administration	\$ 1,595,384	\$ 1,841,918	\$ 1,903,006	\$ (61,088)
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,260,623	\$ 1,296,457	\$ 1,295,174	\$ 1,283
Fire and rescue services:				
Fire department	\$ 51,000	\$ 51,000	\$ 53,693	\$ (2,693)
Ambulance and rescue services	45,000	45,000	45,000	-
Total fire and rescue services	\$ 96,000	\$ 96,000	\$ 98,693	\$ (2,693)
Total public safety	\$ 1,356,623	\$ 1,392,457	\$ 1,393,867	\$ (1,410)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 522,350	\$ 522,350	\$ 461,716	\$ 60,634
Adminstration	372,009	373,559	389,723	(16,164)
Total maintenance of highways, streets, bridges & sidewalks	\$ 894,359	\$ 895,909	\$ 851,439	\$ 44,470
Maintenance of general buildings and grounds:				
General properties	\$ 829,071	\$ 831,071	\$ 812,810	\$ 18,261
Refuse	427,000	427,000	429,612	(2,612)
Total maintenance of general buildings and grounds	\$ 1,256,071	\$ 1,258,071	\$ 1,242,422	\$ 18,261
Total public works	\$ 2,150,430	\$ 2,153,980	\$ 2,093,861	\$ 62,731

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2007 (Continued)

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation	\$ 23,000	\$ 23,000	\$ 16,220	\$ 6,780
Recreation facilities	7,500	7,500	5,500	2,000
Total parks and recreation	\$ 30,500	\$ 30,500	\$ 21,720	\$ 8,780
Total parks, recreation, and cultural	\$ 30,500	\$ 30,500	\$ 21,720	\$ 17,560
Community development:				
Planning and community development:				
Planning	\$ 507,894	\$ 519,694	\$ 460,780	\$ 58,914
Planning commission	16,287	16,287	15,170	1,117
Board of architectural review	6,000	6,000	3,475	2,525
Tree and beautification commission	3,000	3,000	2,053	947
Train station	3,000	3,000	115	2,885
Centennial commission	5,000	5,000	5,000	-
Total planning and community development	\$ 541,181	\$ 552,981	\$ 486,593	\$ 66,388
Environmental management:				
Environmental service	\$ 22,000	\$ 22,000	\$ 17,599	\$ 4,401
Retiree benefits	\$ -	\$ -	\$ 5,831	\$ (5,831)
Board of zoning and appeals	\$ 3,050	\$ 3,050	\$ 1,045	\$ 2,005
Economic development:				
Economic development	\$ 32,000	\$ 24,600	\$ 18,711	\$ 5,889
Total community development	\$ 598,231	\$ 602,631	\$ 529,779	\$ 72,852
Debt service:				
Principal retirement and interest	\$ 100,000	\$ 100,000	\$ 125,752	\$ (25,752)
Interest and other fiscal charges	107,236	107,236	113,786	(6,550)
Total debt service	\$ 207,236	\$ 207,236	\$ 239,538	\$ (32,302)
Total General Fund	\$ 5,938,404	\$ 6,228,722	\$ 6,181,771	\$ 58,343

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2007 (Continued)

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Capital Projects Fund:				
Capital projects expenditures:				
General capital projects	\$ 454,700	\$ 465,600	\$ 137,221	\$ 328,379
Maintenance facility	1,250,000	1,092,500	145,336	947,164
Town Hall generator	-	142,000	143,570	(1,570)
Stormwater inventory	75,000	82,500	86,834	(4,334)
Recreation and beautifcation	25,000	25,000	5,128	19,872
Historic district nomination	-	4,100	4,079	21
14th Street widening	105,000	105,000	19,230	85,770
Main and Maple improvements	700,000	700,000	136,075	563,925
Main Street sidewalks	55,000	55,000	22,210	32,790
20th Street sidewalk	175,000	175,000	55,405	119,595
S. Nusery Avenue sidewalk	15,000	15,000	4,595	10,405
N. 21st Street sidewalk	15,000	15,000	2,314	12,686
S. 32nd Street sidewalk	15,000	15,000	2,059	12,941
Traffic signal - 23rd	-	315,000	80,035	234,965
Maple and A round-about	-	25,000	2,334	22,666
Emergency vehicle	50,000	50,000	21,104	28,896
N. 21st Street guardrail	-	65,000	64,569	431
Traffic signal - Hatch	50,600	191,000	61,342	129,658
Total Capital Projects Fund	<u>\$ 2,985,300</u>	<u>\$ 3,537,700</u>	<u>\$ 993,440</u>	<u>\$ 2,544,260</u>
Total Primary Government	<u>\$ 8,923,704</u>	<u>\$ 9,766,422</u>	<u>\$ 7,175,211</u>	<u>\$ 2,602,603</u>

Schedule of Revenues and Expenses - Budget and Actual
Water Fund
For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Water Fund:				
Operating revenues:				
Water meter fees	\$ 12,400	\$ 12,400	\$ 18,493	\$ 6,093
Water fees	989,653	989,653	990,857	1,204
Miscellaneous income	14,850	14,850	6,773	(8,077)
Service charge	-	-	10	10
Penalties and interest	14,000	14,000	17,429	3,429
Water flushing	300	300	1,273	973
Total operating revenues	<u>\$ 1,031,203</u>	<u>\$ 1,031,203</u>	<u>\$ 1,034,835</u>	<u>\$ 3,632</u>
Operating expenses:				
Personnel:				
Water staff	\$ 563,543	\$ 568,543	\$ 556,581	\$ 11,962
Overtime - Water	32,000	32,000	40,307	(8,307)
Plant operations:				
Electricity	23,300	23,300	26,241	(2,941)
Telephone	7,000	7,000	4,042	2,958
Supplies	11,000	11,000	7,709	3,291
Lab Equipment	9,000	9,000	-	9,000
Contracts	10,000	10,000	8,911	1,089
Uniforms	8,450	8,450	6,056	2,394
Safety	10,600	10,600	10,455	145
Sludge disposal	2,000	2,000	-	2,000
Cross connections	1,000	1,000	-	1,000
Plant repairs	41,000	41,000	20,792	20,208
Water line repairs	30,000	30,000	24,588	5,412
Leak detection	3,000	3,000	-	3,000
Meter repairs & testing	6,000	6,000	12,681	(6,681)
New water meters	73,000	73,000	18,505	54,495
Computer upgrades	4,000	4,000	3,213	787
Chemicals - plant	34,000	34,000	23,876	10,124
Generator WTP	5,000	5,000	1,044	3,956
Permits	3,000	3,000	3,000	-
Touch read HDW & SFTW	8,700	8,700	4,136	4,564
Public education	3,500	3,500	-	3,500
VDH operations fee	4,200	4,200	3,844	356
Well operations:				
Electricity	31,000	31,000	35,342	(4,342)
Telephone	3,100	3,100	869	2,231
Supplies	32,000	32,000	39,132	(7,132)
Contracts	4,000	4,000	27,435	(23,435)
Spare parts	3,000	3,000	1,932	1,068
Repairs	32,000	32,000	30,912	1,088
Chemicals	16,000	16,000	8,481	7,519
Carbon change-out	24,000	24,000	16,989	7,011
Equipment and vehicles expenses:				
New equipment & tools	37,000	29,500	7,078	22,422
Vehicle repairs	7,900	7,900	10,928	(3,028)
Propane	4,300	4,300	1,886	2,414

Schedule of Revenues and Expenses - Budget and Actual
Water Fund
For the Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Water Fund: (Continued)				
Operating expenses: (Continued)				
Other:				
Advertisements	\$ 6,000	\$ 6,000	\$ 2,285	\$ 3,715
Water samples	33,000	33,000	32,626	374
Training	8,500	8,500	5,317	3,183
Dues & subscriptions	200	200	100	100
Consumer reports	3,700	3,700	2,613	1,087
General expenses	3,500	3,500	1,021	2,479
Postage/mailings	7,000	7,000	4,650	2,350
Professional services	30,000	30,000	-	30,000
Watershed management	3,000	3,000	5,596	(2,596)
Forestry management	1,000	1,000	-	1,000
Environmental compliance	3,000	3,000	1,735	1,265
Mowing	10,000	10,000	5,760	4,240
Administrative supplies	7,000	7,000	-	7,000
Water department emergency	4,000	4,000	3,605	395
Employee benefits:				
Health insurance	122,916	122,916	100,657	22,259
Retirement	68,651	68,651	60,636	8,015
Workers' compensation	19,726	19,726	12,020	7,706
Payroll taxes	44,587	44,587	45,952	(1,365)
Performance bonuses	5,000	5,000	-	5,000
Drug testing	450	450	365	85
Life insurance	5,853	5,853	5,332	521
Deferred compensation match	3,640	3,640	2,050	1,590
Depreciation	-	-	212,041	(212,041)
Capital outlay - non-capitalizable expenses	2,430,500	1,508,000	731,149	776,851
Total operating expenses	\$ 3,908,816	\$ 2,983,816	\$ 2,192,475	\$ 791,341
Operating income (loss)	\$ (2,877,613)	\$ (1,952,613)	\$ (1,157,640)	\$ 794,973
Nonoperating revenues (expenses):				
Interest earned	\$ 80,000	\$ 80,000	\$ 293,951	\$ 213,951
Cellular lease	111,000	111,000	124,408	13,408
Interest expense	-	-	(257,415)	(257,415)
Total nonoperating revenues (expenses)	\$ 191,000	\$ 191,000	\$ 160,944	\$ (30,056)
Net income (loss) before operating transfers and contributions	\$ (2,686,613)	\$ (1,761,613)	\$ (996,696)	\$ 764,917
Other financing sources (uses):				
Contributed capital - availability fees	\$ 601,600	\$ 601,600	\$ 1,115,400	\$ 513,800
Proceeds from the issuance of debt	3,030,500	3,030,500	-	(3,030,500)
Transfers in	96,555	101,555	-	(101,555)
Transfers out	(83,654)	(83,654)	(83,651)	3
Total operating transfers	\$ 3,645,001	\$ 3,650,001	\$ 1,031,749	\$ (2,618,252)
Net income	\$ 958,388	\$ 1,888,388	\$ 35,053	\$ (1,853,335)

Schedule of Revenues and Expenses - Budget and Actual

Sewer Fund

For the Year Ended June 30, 2007

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Sewer Fund:				
Operating revenues:				
Sewer fees	\$ 1,337,728	\$ 1,337,728	\$ 1,518,364	\$ 180,636
Penalties and interest	14,000	14,000	17,426	3,426
Miscellaneous income	3,100	3,100	4,679	1,579
Proffers	25,000	25,000	39,000	14,000
Total operating revenues	\$ 1,379,828	\$ 1,379,828	\$ 1,579,469	\$ 199,641
Operating expenses:				
Personnel:				
Sewer staff	\$ 562,216	\$ 567,716	\$ 568,188	\$ (472)
Overtime - Sewer	32,000	32,000	33,822	(1,822)
Plant operations:				
Electricity	73,500	73,500	82,488	(8,988)
Telephone	11,000	11,000	4,789	6,211
Supplies	-	-	7,593	(7,593)
Plant supplies	18,600	7,500	20,099	(12,599)
Contracts	-	-	5,450	(5,450)
Permits	7,650	7,650	-	7,650
Uniforms	8,715	8,715	9,225	(510)
Plant repairs	37,000	37,000	23,293	13,707
Sewer line repairs	25,000	25,000	91,780	(66,780)
Safety	13,500	13,500	6,117	7,383
Lab supplies	7,500	18,600	-	18,600
New equipment & tools	5,500	5,500	6,616	(1,116)
Sludge removal	66,000	66,000	49,904	16,096
Chemicals	10,000	10,000	14,550	(4,550)
Lab certification	5,900	5,900	3,786	2,114
Sample analysis	5,600	5,600	5,702	(102)
Waste disposal	2,500	2,500	403	2,097
Pump station operations:				
Electricity	18,000	18,000	9,536	8,464
Telephone	1,500	1,500	931	569
Repairs	21,250	21,250	2,403	18,847
Contracts	7,000	7,000	792	6,208
Equipment	7,500	7,500	463	7,037
Equipment and vehicles expenses:				
Equipment - plant	15,000	7,500	11,612	(4,112)
Gas and oil	3,000	3,000	1,115	1,885
Vehicle repairs	7,875	7,875	6,991	884

Schedule of Revenues and Expenses - Budget and Actual

Sewer Fund

For the Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Sewer Fund: (Continued)				
Other expenses:				
Dues & subscriptions	\$ 750	\$ 750	\$ 389	\$ 361
Advertisements	3,100	3,100	5,358	(2,258)
Training	5,000	5,000	-	5,000
Postage/mailings	7,000	7,000	9,964	(2,964)
Engineering	30,000	30,000	25,231	4,769
Mowing	10,000	10,000	6,295	3,705
Environmental compliance	3,000	3,000	2,669	331
Sewer department emergency	3,000	3,000	-	3,000
Other expenses	7,000	7,000	1,980	5,020
Public education	2,500	2,500	-	2,500
Employee benefits:				
Health insurance	96,455	96,455	89,829	96,455
Retirement	67,810	67,810	66,379	1,431
Workers' compensation	19,726	19,726	9,088	10,638
Payroll taxes	43,812	43,812	48,594	(4,782)
Performance bonuses	5,000	5,000	21	4,979
Drug testing	500	500	314	186
Deferred compensation match	3,640	3,640	4,010	(370)
Life insurance	6,438	6,438	5,837	601
Depreciation	-	-	212,388	
Capital outlay - non-capitalizable expenses	150,000	157,500	6,184	151,316
 Total operating expenses	 \$ 1,438,037	 \$ 1,443,537	 \$ 1,462,178	 \$ 283,576
 Operating income	 \$ (58,209)	 \$ (63,709)	 \$ 117,291	 \$ 483,217
 Nonoperating revenues (expenses):				
Interest earned	\$ 80,000	\$ 80,000	\$ 367,494	\$ 287,494
Interest expense			(406,375)	(406,375)
 Total nonoperating revenues (expenses)	 \$ 80,000	 \$ 80,000	 \$ (38,881)	 \$ (118,881)
 Net income before operating transfers	 \$ 21,791	 \$ 16,291	 \$ 78,410	 \$ 364,336
 Other financing sources (uses):				
Contributed capital - availability fees	\$ 512,000	\$ 512,000	\$ 961,000	\$ 449,000
Proceeds from the issuance of debt	2,883,000	3,314,000	-	(3,314,000)
Transfers in	-	5,500	-	(5,500)
Transfers out	(127,781)	(127,781)	(83,651)	44,130
 Total operating transfers	 \$ 3,267,219	 \$ 3,703,719	 \$ 877,349	 \$ (2,826,370)
 Net income	 \$ 3,289,010	 \$ 3,720,010	 \$ 955,759	 \$ (2,462,034)

Capital Assets Used in the Operation of Governmental Funds
 Comparative Schedules by Source
 As of June 30, 2007

	<u>2007</u>	<u>2006</u>
Governmental funds capital assets:		
Land	\$ 50,000	\$ 50,000
Buildings	1,047,880	1,047,880
Improvements other than buildings	460,027	344,637
Machinery and equipment	1,217,788	1,026,518
Vehicles	602,830	520,943
Infrastructure	48,905,853	48,710,558
Construction in progress	<u>1,082,369</u>	<u>501,036</u>
Total governmental funds capital assets	<u>\$ 53,366,747</u>	<u>\$ 52,201,572</u>
Investments in governmental funds capital assets by source:		
General fund	<u>\$ 53,366,747</u>	<u>\$ 52,201,572</u>
Total governmental funds capital assets	<u>\$ 53,366,747</u>	<u>\$ 52,201,572</u>

TOWN OF PURCELLVILLE, VIRGINIA

Capital Assets Used in the Operation of Governmental Funds
 Schedule by Function and Activity
 As of June 30, 2007

Function and Activity	Land	Construction in Progress	Buildings
General government administration:			
Town council	\$ 50,000	\$ 22,015	\$ 903,128
Finance and administration	-	-	-
Total general government administration	<u>\$ 50,000</u>	<u>\$ 22,015</u>	<u>\$ 903,128</u>
Public safety:			
Police department	\$ -	\$ 23,481	\$ -
Total public safety	<u>\$ -</u>	<u>\$ 23,481</u>	<u>\$ -</u>
Public works:			
Highways and roads	\$ -	\$ 1,036,873	\$ 144,752
Maintenance of buildings and grounds	-	-	-
Total public works	<u>\$ -</u>	<u>\$ 1,036,873</u>	<u>\$ 144,752</u>
Parks, recreation, and cultural:			
Parks and recreation	\$ -	-	-
Total parks, recreation, and cultural	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total governmental funds capital assets	<u><u>\$ 50,000</u></u>	<u><u>\$ 1,082,369</u></u>	<u><u>\$ 1,047,880</u></u>

<u>Improvements Other Than Buildings</u>	<u>Machinery and Equipment</u>	<u>Vehicles</u>	<u>Infrastructure</u>	<u>Total</u>
\$ 50,735	\$ 167,334	\$ 25,392	\$ -	\$ 1,218,604
<u>-</u>	<u>281,654</u>	<u>149,360</u>	<u>-</u>	<u>431,014</u>
\$ <u>50,735</u>	\$ <u>448,988</u>	\$ <u>174,752</u>	\$ <u>-</u>	\$ <u>1,649,618</u>
\$ <u>3,850</u>	\$ <u>156,980</u>	\$ <u>286,689</u>	\$ <u>-</u>	\$ <u>471,000</u>
\$ <u>3,850</u>	\$ <u>156,980</u>	\$ <u>286,689</u>	\$ <u>-</u>	\$ <u>471,000</u>
\$ 394,994	\$ 68,800	\$ 141,389	\$ 48,905,853	\$ 50,692,661
<u>-</u>	<u>543,020</u>	<u>-</u>	<u>-</u>	<u>543,020</u>
\$ <u>394,994</u>	\$ <u>611,820</u>	\$ <u>141,389</u>	\$ <u>48,905,853</u>	\$ <u>51,235,681</u>
\$ <u>10,448</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>10,448</u>
\$ <u>10,448</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>10,448</u>
\$ <u><u>460,027</u></u>	\$ <u><u>1,217,788</u></u>	\$ <u><u>602,830</u></u>	\$ <u><u>48,905,853</u></u>	\$ <u><u>53,366,747</u></u>

Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes By Function and Activity
 For the Year Ended June 30, 2007

Function and Activity	Governmental Funds Capital Assets 7/1/2006 (1)	Additions	Deductions	Governmental Funds Capital Assets June 30, 2007
General government administration:				
Town council	\$ 1,065,958	\$ 198,383	\$ (45,737)	\$ 1,218,604
Finance and administration	431,014	-	-	431,014
Total general government administration	\$ 1,496,972	\$ 198,383	\$ (45,737)	\$ 1,649,618
Public safety:				
Police department	\$ 368,007	\$ 102,993	\$ -	\$ 471,000
Total public safety	\$ 368,007	\$ 102,993	\$ -	\$ 471,000
Public works:				
Highways and roads	\$ 49,830,825	\$ 926,490	\$ (64,654)	\$ 50,692,661
Maintenance of buildings and grounds	495,320	47,700	-	543,020
Total public works	\$ 50,326,145	\$ 974,190	\$ (64,654)	\$ 51,235,681
Parks, recreation, and cultural:				
Parks and recreation	\$ 10,448	\$ -	\$ -	\$ 10,448
Total parks, recreation, and cultural	\$ 10,448	\$ -	\$ -	\$ 10,448
Total governmental funds capital assets	\$ 52,201,572	\$ 1,275,566	\$ (110,391)	\$ 53,366,747

(1) Beginning assets have been adjusted by \$2,217,769. See Note 11 for additional information.

Statistical Section

Net Assets by Component
 Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Governmental activities				
Invested in capital assets, net of related debt	\$ 33,014,931	\$ 32,119,537	\$ 31,508,203	\$ 32,879,544
Unrestricted	2,233,102	2,137,252	2,199,446	2,641,704
Total governmental activities net assets	<u>\$ 35,248,033</u>	<u>\$ 34,256,789</u>	<u>\$ 33,707,649</u>	<u>\$ 35,521,248</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 7,394,123	\$ 8,538,644	\$ 9,222,830	\$ 10,214,935
Unrestricted	12,287,315	12,838,372	12,076,802	12,237,431
Total business-type activities net assets	<u>\$ 19,681,438</u>	<u>\$ 21,377,016</u>	<u>\$ 21,299,632</u>	<u>\$ 22,452,366</u>
Primary government				
Invested in capital assets, net of related debt	\$ 40,409,054	\$ 40,658,181	\$ 40,731,033	\$ 43,094,479
Unrestricted	14,520,417	14,975,624	14,276,248	14,879,135
Total primary government net assets	<u>\$ 54,929,471</u>	<u>\$ 55,633,805</u>	<u>\$ 55,007,281</u>	<u>\$ 57,973,614</u>

Note: Accrual-basis financial information is available back to fiscal year 2004 when the Town implemented GASB 34.

Changes in Net Assets
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Expenses				
Governmental activities:				
General government	\$ 1,824,860	\$ 1,450,167	\$ 1,451,606	\$ 1,876,357
Public safety	613,440	987,686	1,367,893	1,466,000
Public works	2,587,276	2,979,121	3,474,333	3,286,874
Parks, recreation and cultural	-	17,077	32,704	35,241
Community development	-	451,194	455,350	526,780
Interest on long-term debt	35,466	28,853	104,799	113,602
Total governmental activities expenses	\$ 5,061,042	\$ 5,914,098	\$ 6,886,685	\$ 7,304,854
Business-type activities:				
Water	\$ 1,228,332	\$ 1,221,858	\$ 1,845,569	\$ 2,449,890
Sewer	1,314,089	1,531,506	1,704,589	1,868,553
Total business-type activities expenses	\$ 2,542,421	\$ 2,753,364	\$ 3,550,158	\$ 4,318,443
Total primary government expenses	\$ 7,603,463	\$ 8,667,462	\$ 10,436,843	\$ 11,623,297
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 114,249	\$ 175,596	\$ 145,948	\$ 140,718
Public safety	59,282	66,885	78,732	77,431
Public works	22,015	2,500	2,819	1,846
Operating grants and contributions	504,620	114,921	233,193	247,883
Capital grants and contributions	434,452	342,297	518,521	574,687
Total governmental activities program revenues	\$ 1,134,618	\$ 702,199	\$ 979,213	\$ 1,042,565
Business-type activities:				
Charges for services:				
Water	\$ 690,778	\$ 829,368	\$ 801,186	\$ 1,028,062
Sewer	910,338	1,142,949	1,100,214	1,574,790
Operating grants and contributions	11,101	-	-	-
Capital grants and contributions	5,419,597	2,199,000	893,000	2,076,400
Total business-type activities program revenues	\$ 7,031,814	\$ 4,171,317	\$ 2,794,400	\$ 4,679,252
Total primary government program revenues	\$ 8,166,432	\$ 4,873,516	\$ 3,773,613	\$ 5,721,817
Net (expense) / revenue				
Governmental activities	\$ (3,926,424)	\$ (5,211,899)	\$ (5,907,472)	\$ (6,262,289)
Business-type activities	4,489,393	1,417,953	(755,758)	360,809
Total primary government net (expense) / revenue	\$ 562,969	\$ (3,793,946)	\$ (6,663,230)	\$ (5,901,480)

Changes in Net Assets
Last Four Fiscal Years (Continued)
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes	\$ 1,373,678	\$ 1,677,627	\$ 2,102,097	\$ 2,428,380
Local sales and use taxes	352,816	404,052	616,091	652,195
Restaurant food taxes	351,554	459,910	638,441	699,300
Consumer utility taxes	259,332	287,238	301,533	256,927
Business licenses	456,957	585,062	572,165	525,813
Other local taxes	433,242	488,405	531,590	665,311
Unrestricted grants and contributions	202,229	194,092	400,881	210,019
Unrestricted revenues from use of money and property	16,693	29,961	105,679	151,843
Miscellaneous	64,465	76,994	72,547	52,916
Transfers	20,359	17,314	17,308	167,302
Total governmental activities	\$ 3,531,325	\$ 4,220,655	\$ 5,358,332	\$ 5,810,006
Business-type activities:				
Miscellaneous	\$ 112,717	\$ 119,670	\$ 162,433	\$ 135,860
Unrestricted revenues from use of money and property	50,894	175,270	533,249	661,445
Transfers	(20,359)	(17,314)	(17,308)	(167,302)
Total business-type activities	\$ 143,252	\$ 277,626	\$ 678,374	\$ 630,003
Total primary government	\$ 3,674,577	\$ 4,498,281	\$ 6,036,706	\$ 6,440,009
Change in Net Assets				
Governmental activities	\$ (395,099)	\$ (991,244)	\$ (549,140)	\$ (452,283)
Business-type activities	4,632,645	1,695,579	(77,384)	990,812
Total primary government	\$ 4,237,546	\$ 704,335	\$ (626,524)	\$ 538,529

Note: Accrual-basis financial information is available back to fiscal year 2004 when the Town implemented GASB 34.

Governmental Activities Tax Revenues by Source
 Last Four Fiscal Years
(accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Local Sales and Use Tax</u>	<u>Consumer Utility Tax</u>	<u>Restaurant Food Tax</u>	<u>Business Licenses</u>	<u>Other Local Taxes</u>	<u>Total</u>
2007	\$ 2,428,380	\$ 652,195	\$ 256,927	\$ 699,300	\$ 525,813	\$ 665,311	\$ 5,227,926
2006	2,102,097	616,091	301,533	638,441	572,165	531,590	4,761,917
2005	1,677,627	404,052	287,238	459,910	585,062	488,405	3,902,294
2004	1,373,678	352,816	259,332	351,554	456,957	433,242	3,227,579

Note: Accrual-basis financial information is available back to fiscal year 2004 when the Town implemented GASB 34.

Fund Balances of Governmental Funds
 Last Five Fiscal Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General fund:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 920,511
Unreserved	<u>1,923,287</u>	<u>2,363,474</u>	<u>2,298,757</u>	<u>4,073,343</u>	<u>2,859,520</u>
Total general fund	<u>\$ 1,923,287</u>	<u>\$ 2,363,474</u>	<u>\$ 2,298,757</u>	<u>\$ 4,073,343</u>	<u>\$ 3,780,031</u>

Changes in Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues					
General property taxes	\$ 1,168,307	\$ 1,369,653	\$ 1,663,988	\$ 2,092,568	\$ 2,409,596
Other local taxes	1,613,577	1,853,901	2,224,667	2,659,820	2,799,546
Permits, privilege fees and regulatory licenses	276,743	136,264	178,096	148,767	142,564
Fines and forfeitures	36,791	59,282	66,885	78,732	77,431
Revenue from use of money and property	24,221	16,693	29,961	105,679	151,842
Miscellaneous	70,547	64,465	76,994	79,747	52,917
Pass-through grant	505,666	-	-	-	-
Intergovernmental:					
Local government	-	400,000	-	89,500	204,000
Commonwealth	415,947	702,094	636,121	900,310	824,384
Federal	176,275	39,207	15,189	155,585	4,205
Total revenues	<u>\$ 4,288,074</u>	<u>\$ 4,641,559</u>	<u>\$ 4,891,901</u>	<u>\$ 6,310,708</u>	<u>\$ 6,666,485</u>
Expenditures					
General government administration	\$ 1,657,140	\$ 1,795,888	\$ 1,225,017	\$ 1,462,066	\$ 1,903,006
Public safety	650,147	587,969	921,222	1,128,938	1,393,867
Public works	1,066,145	1,411,398	1,707,738	2,152,098	2,093,861
Parks, recreation and cultural	-	-	17,077	17,806	21,720
Community development	-	-	431,104	665,467	529,779
Capital projects	419,826	300,707	558,864	1,201,440	993,440
Pass-through grant	505,666	-	-	-	-
Debt service					
Principal	53,844	96,648	84,370	73,865	125,752
Interest and other fiscal charges	60,845	29,121	29,217	84,750	113,786
Total expenditures	<u>\$ 4,413,613</u>	<u>\$ 4,221,731</u>	<u>\$ 4,974,609</u>	<u>\$ 6,786,430</u>	<u>\$ 7,175,211</u>
Excess of revenues over (under) expenditures	<u>\$ (125,539)</u>	<u>\$ 419,828</u>	<u>\$ (82,708)</u>	<u>\$ (475,722)</u>	<u>\$ (508,726)</u>
Other financing sources (uses)					
Transfers in	\$ 17,590	\$ 20,359	\$ 17,314	\$ 17,308	\$ 1,160,741
Transfers out	-	-	-	-	(993,440)
Refunding bonds issued	835,133	-	-	-	-
Bonds issued	-	-	-	2,233,000	-
Payments to refunded bond escrow agent	(835,133)	-	-	-	-
Total other financing sources (uses)	<u>\$ 17,590</u>	<u>\$ 20,359</u>	<u>\$ 17,314</u>	<u>\$ 2,250,308</u>	<u>\$ 167,301</u>
Net change in fund balances	<u>\$ (107,949)</u>	<u>\$ 440,187</u>	<u>\$ (65,394)</u>	<u>\$ 1,774,586</u>	<u>\$ (341,425)</u>
Debt service as a percentage of noncapital expenditures	2.96%	3.31%	2.64%	2.92%	4.03%

General Governmental Tax Revenues by Source

Last Five Fiscal Years

(modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax	Motor Vehicle License Tax	Restau- rant Food Tax	Business Licenses	Other Local Taxes	Total
2007	\$ 2,409,596	\$ 652,195	\$ 256,927	\$ 128,959	\$ 699,300	\$ 525,813	\$ 536,352	5,209,142
2006	2,092,568	616,091	301,533	130,093	638,441	572,165	401,497	4,752,388
2005	1,663,988	404,052	287,238	124,902	459,910	585,062	363,503	3,888,655
2004	1,369,653	352,816	259,332	108,322	351,554	456,957	324,920	3,223,554
2003	1,168,307	328,193	230,107	90,768	339,569	379,268	245,672	2,781,884

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Public Service	Total Taxable Assessed Value	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2007	\$ 1,177,808,110	\$ 55,619,860	\$ 11,220,869	\$ 1,244,648,839	1,244,648,839	100.00%
2006	1,019,172,825	49,728,198	9,652,257	1,078,553,280	1,078,553,280	100.00%
2005	739,972,175	36,787,240	9,280,605	786,040,020	786,040,020	100.00%
2004	568,438,265	31,157,197	10,493,964	610,089,426	610,089,426	100.00%
2003	452,511,560	26,962,736	8,750,945	488,225,241	488,225,241	100.00%
2002	411,026,000	23,590,902	10,419,804	445,036,706	445,036,706	100.00%
2001	313,513,634	20,803,922	7,885,696	342,203,252	342,203,252	100.00%
2000	251,437,692	17,044,884	6,975,208	275,457,784	275,457,784	100.00%
1999	215,680,750	13,225,209	5,448,750	234,354,709	234,354,709	100.00%
1998	203,342,106	12,243,331	5,231,916	220,817,353	220,817,353	100.00%

Source: Commissioner of Revenue of Loudoun County

Property Tax Rates (1)
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Years	Direct Rates				
	Real Estate	Personal Property	Volunteers	Machinery and Tools	Merchants' Capital
2007	\$ 0.17/0.18	\$ 1.05	\$ 0.01	\$ 0.55	\$ 0.55
2006	0.20/0.17	1.05	0.01	0.55	0.55
2005	0.21/0.20	1.05	0.01	0.55	0.55
2004	0.22/0.21	1.05	0.01	0.55	0.55
2003	0.24/0.22	1.05	0.01	0.55	0.55
2002	0.24	1.05	0.01	0.55	0.55
2001	0.24	1.05	0.01	0.55	0.55
2000	0.24	1.05	0.01	1.05	1.05
1999	0.24	1.05	0.01	1.05	1.05
1998	0.24	1.05	0.01	1.05	1.05

(1) Per \$100 of assessed value

Principal Property Taxpayers
Current Year

Taxpayer	Type Business	Fiscal Year 2007	
		2007 Assessed Valuation	% of Total Assessed Valuation
ZP No. 124, LLC	Grocery store	\$ 12,247,800	1.14%
Purcellville Shopping Center, LLC	Shopping center	9,924,300	0.92%
Catoclin Meadows, LC	Land/subdivision	9,600,000	0.89%
Toll Land X, LP	Vacant land	6,400,000	0.59%
Purvellville Plaza, LLC	Shopping center	5,462,800	0.51%
Maple Avenue Apartments, LP	Apartment building	5,449,200	0.51%
SRB Enterprises, LLC	Shopping center	5,365,800	0.50%
Main Street Associates, LP	Apartment building	5,227,500	0.48%
Jordan River Acquisitions, LLC	House on 15.58 acres	4,542,600	0.42%
Loudoun Medical Property Management, LLC	Medical office building	4,055,000	0.38%
		<u>\$ 68,275,000</u>	<u>1.82%</u>

Source: Commissioner of Revenue of Loudoun County

Ratios of Outstanding Debt by Type
Last Six Fiscal Years

Fiscal Years	Governmental Activities		Business-Type Activities		Total Primary Government	Per Capita
	General		General			
	Obligation Bonds	Capital Leases	Obligation Bonds			
2007	\$ 2,783,945	\$ -	\$ 13,380,619	\$ 16,164,564	\$ 2,535	
2006	2,906,550	3,147	13,758,440	16,668,137	2,614	
2005	731,571	45,113	10,349,788	11,126,472	1,819	
2004	776,173	84,881	10,277,168	11,138,222	2,061	
2003	835,133	122,569	10,386,483	11,344,185	2,421	
2002	825,506	158,264	10,266,131	11,249,901	2,798	

Notes:

Debt information is only available back to 2002.

Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Net Bonded Debt (1)	Ratio of Net General Obligation Debt to Assessed Value (2)	Net Bonded Debt per Capita
2007	\$ 2,783,945	0.22%	\$ 413
2006	2,906,550	0.27%	456
2005	731,571	0.09%	120
2004	776,173	0.13%	144
2003	835,133	0.17%	178
2002	825,506	0.19%	205
2001	845,783	0.25%	220
2000	864,741	0.31%	237
1999	882,464	0.38%	314
1998	898,811	0.41%	351

(1) Includes all long-term general obligation bonded debt, Literary Fund Loans, and excludes revenue bonds, capital leases, and compensated absences.

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 7

TOWN OF PURCELLVILLE, VIRGINIA

Legal Debt Margin Information

Last Ten Fiscal Years

	Fiscal Year				
	1998	1999	2000	2001	2002
Debt limit	\$ 22,081,735	\$ 23,435,471	\$ 27,545,778	\$ 34,220,325	\$ 44,503,671
Total net debt applicable to limit	898,811	882,464	864,741	845,783	825,506
Legal debt margin	\$ 21,182,924	\$ 22,553,007	\$ 26,681,037	\$ 33,374,542	\$ 43,678,165
Total net debt applicable to the limit as a percentage of debt limit	4.07%	3.77%	3.14%	2.47%	1.85%

Table 12

Fiscal Year				
2003	2004	2005	2006	2007
\$ 48,822,524	\$ 61,008,943	\$ 78,604,002	\$ 107,855,328	\$ 124,464,884
835,133	776,173	731,571	2,906,550	2,783,945
<u>\$ 47,987,391</u>	<u>\$ 60,232,770</u>	<u>\$ 77,872,431</u>	<u>\$ 104,948,778</u>	<u>\$ 121,680,939</u>
1.71%	1.27%	0.93%	2.69%	2.24%

Legal Debt Margin Calculation for Fiscal Year 2007

Total assessed value	\$ 1,244,648,839
Debt limit (10% of total assessed value)	124,464,884
Net debt applicable to limit	<u>2,783,945</u>
Legal debt margin	<u>\$ 121,680,939</u>

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COMPLIANCE

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 TOWN COUNCIL
TOWN OF PURCELLVILLE, VIRGINIA
PURCELLVILLE, VIRGINIA

We have audited the financial statements of the Town of Purcellville, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the Town of Purcellville, Virginia's basic financial statements and have issued our report thereon, dated November 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Purcellville, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Purcellville, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Purcellville, Virginia's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors and management, and it is not intended to be and should not be used by anyone other than these specified parties.

Rofman, Fann, Cox Associates

Charlottesville, Virginia
November 26, 2007