



TOWN *of* HERNDON, VIRGINIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012



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TOWN OF HERNDON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2012

Prepared by the
Department of Finance

TOWN OF HERNDON, VIRGINIA

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INTRODUCTORY SECTION



TOWN OF HERNDON, VIRGINIA
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TOWN OF HERNDON



Lisa C. Merkel, Mayor
Connie Hutchinson, Vice Mayor
C. Melissa Jonas
David A. Kirby
Sheila A. Olem
Charlie D. Waddell
Grace Han Wolf

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Mary K. Tuohy, CPA, MPA
Director of Finance

November 27, 2012

The Honorable Mayor, Members of the Town Council and Citizens of the Town of Herndon, Virginia

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2012. The Herndon Town Charter, Section 4.2 (f), requires that the Town Manager arrange for an annual audit by a certified public accountant. In addition, Section 15.2-2511 of the *Code of Virginia* requires that all counties, cities and towns with populations greater than 3,500 as well as all towns with a separate school system, regardless of size, have their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts of the Commonwealth of Virginia. This report is formally submitted to you in fulfillment of those requirements.

The financial statements included in this report, which have earned an unqualified audit opinion, conform to the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), and the Auditor of Public Accounts.

Town management is responsible for the accuracy, fairness and completeness of the information, including all disclosures that are presented in this report. To the best of our knowledge, the enclosed data is believed to be accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the town. All necessary disclosures have been included to enable the reader to gain a thorough understanding of the town's financial affairs. For additional information regarding the basic financial statements and the town's financial position, please refer to Management's Discussion and Analysis (MD&A) which appears in the financial section of the report.

Town management is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the town are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The town's financial statements have been audited by PBGH, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the town for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by town management; and evaluating the overall financial statement presentation. The independent auditors' report is presented as the first component of the report's financial section.

PROFILE OF THE TOWN

The Town of Herndon, located in the northwest quadrant of Fairfax County, has a land area of 4.28 square miles and is situated twenty-three miles west of Washington, D. C. Incorporated in 1879, the town originally relied on dairy farming and the railroad to provide its economic security. The town was at one time in the heart of Northern Virginia's important dairy farming community. And, until about fifty years ago, it remained essentially a quiet country village where well-to-do Washingtonians rode the railroad to summer vacation homes. Since that time, the town's economic and demographic makeup has changed quite dramatically. The estimated 2012 population is now 23,556 persons, housed in 7,889 dwelling units. If the town is developed according to the currently adopted Comprehensive Plan (master plan), it is anticipated that the 2030 population will increase to approximately 26,270 and 8,726 dwelling units.

The town is organized under the council/manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the town. The Mayor and six members of the Council are elected simultaneously for two-year terms. The Council appoints a Town Manager to be the administrative head of the town. The manager is charged with directing all business affairs of the town.

The town provides the usual general governmental services for its citizens that are typical of towns in Virginia. These include public works and utilities, parks and recreation, police protection, community development, and other administrative services. In Virginia, incorporated towns are an integral part of the county in which they are located. The citizens of the town, therefore, pay Fairfax County property taxes (real estate and personal property), in addition to town taxes. In exchange, Fairfax County provides public education, certain technical and special education, libraries, health and human services, mental health assistance, fire and ambulance service, judicial services, correctional facilities and additional recreation activities and facilities.

ECONOMIC CONDITIONS AND OUTLOOK

Local Economy

Several economic and demographic factors heavily influence the town's revenue stream, including current and projected inflation rates, unemployment rates, retail sales volumes, new construction activities, real estate sales transactions, population movements and income per capita. For the past several years, Fairfax County has ranked in the top echelon of large U.S. counties with the highest median household incomes. According to the American Community Survey, the County's median household income for calendar year 2010 was \$105,797, the second highest in the nation for counties with populations of 250,000 or more.

During the past six years, Herndon has been recognized nationally by *Business Week* and *Money* magazines as well as CNN/Money.com as one of the "best affordable suburbs" in the nation and one of the "best places in the nation for the rich and single." In summer 2011, the town was included in *Money* magazine and CNN/Money.com's 2011 ranking of the "Best Places to Live" in America. Herndon was only one of five Virginia communities selected for the ranking.

In their write-up, the town was lauded as “a great base to explore the many jobs in the area. Herndon sits right near the Dulles Technology Corridor, where companies such as AOL, Microsoft, and Verizon are big employers.”

Many economists believe that the national economy, which slid into recession in December 2007, is continuing to slowly recover, as indicated by a healthy four percent increase in consumer spending over the town’s prior fiscal year. Another hopeful sign is the US unemployment rate which dropped from 9.1 percent in August 2011 to 8.1 percent in August 2012. Closer to home, Fairfax County’s unemployment rate, which peaked at 5.2 percent in June 2009, fell to 4.2 percent by August 2012.

However, with the political leadership still undecided about the measures necessary to avert the looming federal “fiscal cliff” in January 2013, many area employers, especially those tied to the defense industry, have not only ceased adding new jobs, some have even begun discussing employee furloughs and spinning-offs potentially affected operations. The town’s economic base is heavily dependent on businesses which perform contract work for such federal agencies as defense and homeland security. A major decline in federal contracting opportunities would have a significant adverse impact on the town’s business license assessments, meals tax collections and transient lodging tax collections as well as impact the value of its commercial properties and, over time, residential properties.

In spite of the continuing challenges and uncertainties, Herndon’s current economic health remains comparatively sound and the town’s business climate is strong. The economic outlook, which anticipates the federal government finding and agreeing to a palatable solution to the federal deficit issues, assumes a continued modest rebound in property values for 2013 through 2015, along with modest growth rates of one to three percent. With the planned extension of Metrorail to Dulles Airport, development of the Downtown according to the adopted master plan; the beginnings of development and redevelopment surrounding the Herndon Metrorail area and the strength of our business community in general, positive signs of economic vitality are evident.

Long-term Financial Planning and Outlook

The long-term economic goal of the town is to continually attract new enterprises and encourage expansion of existing business already located in the town. Beginning in 1991, development and utilization of the Worldgate complex has provided a significant economic stimulus to the town. More recently, growth in federal spending and information technology and subsequent economic influence has bolstered real estate, general sales, consumer utility, and business, professional and occupational licenses tax revenues. Today, approximately 9.3 million square feet of commercial and office floor space exists in the town which supports an estimated 25,300 jobs. In 2012, the Herndon business community encompasses a wide spectrum, from home-based occupations to Fortune 500 headquarters; from small ethnic, family-owned grocery stores to firms specializing in computer software development and systems integration; telecommunications; Internet and Internet-related services; financial services and contracting work for defense and homeland security agencies. A large proportion of these jobs are high-wage, highly-skilled technical, professional, scientific, and managerial service occupations.

The Town Council's 2030 Vision Plan for the town calls for a future in which "history and heritage are respected" and in which "Herndon is the anchor of an expanded community where positive benefits extend beyond the town's boundaries." The 2030 Vision's eight tenets are the cornerstone upon which all town initiatives are built.

The town's 2030 Comprehensive Plan addresses the redevelopment of the areas surrounding access to the Herndon-Monroe rail station at the southern edge of the town. This transit station is part of Phase 2 of Dulles Rail, a project that is expected to bring the Washington area MetroRail system (dubbed the "Silver Line") to the Herndon area by 2018. The connection by rail of the town and its commercial districts to the entire metropolitan Washington region creates a vastly enhanced marketplace that will likely have broad appeal to businesses. By the year 2020, the projected non-residential floor area will be almost ten million square feet, supporting an estimated 27,000 jobs. Further, the town has developed a comprehensive plan amendment for final Town Council action in early 2012. This plan provides for large scale transit-oriented mixed use redevelopment in the vicinity of the Herndon Metrorail Station. The final plan is anticipated to allow for redevelopment of existing low rise office and back office areas resulting in a net increase in the range of 6 million square feet of high quality office, residential, hotel and retail space.

The town's location close to Washington Dulles International Airport provides a major stimulus for commercial development. The airport itself is in the final stages of a multi-billion dollar capital construction project that includes a redesigned facility which can accommodate significant increases in air traffic. In fact, the entire Dulles Corridor, in which the town is centrally located, is on the cusp of a new era of growth. Over the next 25 years, population in the Dulles Corridor is expected to increase 45 percent and job growth increase by 63 percent. This growth potential, along with steady increases in the number of new information system technology and security-related businesses, will have a positive influence upon the town and its economic viability.

FINANCIAL INFORMATION

Financial Policies

A key component of the town's annual budgetary planning process, which highlights the organization's commitment to fiscal integrity and sound financial management, is the town's financial policies. These policies relate primarily to capital planning and debt management, and provide annual budget guidelines covering operating revenues and expenditures. Included in the policies are strategies which support the adoption of an annual balanced budget; require recurring costs to be supported by recurring revenues; limit combined outstanding and proposed debt such that the total is no greater than the town's maximum debt capacities; and retain the town's coveted AAA bond credit rating. The policies also address minimum General Fund unassigned fund balance requirements and deposits to as well as use of the town's revenue stabilization fund. The town's financial policies are reaffirmed annual by the Town Council as part of the town's budget adoption process.

Budgetary and Accounting Controls

The Town Manager is required by the *Code of Virginia* to prepare and present to the Town Council a proposed budget no later than April 1 of each year. The Town Council is required to adopt a budget prior to July 1 and shall fix a tax rate for the budget year at that time.

A brief synopsis of the budget as proposed by the Town Manager is published at least once in a newspaper with general circulation within the town. The public hearing provides citizens of the town an opportunity to comment on the recommended budget. After the Town Council approves the annual budget, the Town Manager has the authority to approve the intra and inter departmental transfer of funds up to \$30,000. Transfer amounts in excess of \$30,000 as well as any addition, deletion or transfer of reserved funds can only be accomplished with the approval of the Town Council.

Budgetary control is maintained at the department level with all departments having on-line access to expenditure account information. Additionally, departments are provided periodic updates of comprehensive financial data for each activity center within the department. These reports display approved budget amounts, detailed item-by-item expenditure and encumbrance transactions, transfers, and remaining budget balances.

Additional budget control is maintained within the town's purchasing system. Prior to the release of a purchase order to a vendor, funds must be encumbered. If the dollar amount of a purchase order request exceeds the allotment balance, the purchase order is not released until a proper transfer of funds has been approved and executed.

Written reports are presented to the Town Council throughout the year to keep them apprised of the town's financial activities. Included in the reports are narrative explanations of emerging trends for all major sources of revenues and expenditures.

OTHER INFORMATION

Independent Audit

The town requires that an annual independent audit be conducted on its financial statements by a certified public accountant selected through a competitive procurement process. For the year ended June 30, 2011, the firm of PBGH, LLP was retained to perform this service. PBGH's reports on the financial statements and compliance matters are located in sections two and four of this report.

Awards and Designations

Tree City USA

The Community Forest Division of the Department of Community Development received a Tree City USA award from the National Arbor Day Foundation. This is the twenty-third consecutive year that the town has achieved this award, confirming the town's commitment to its

tree canopy and environmental stewardship. In addition, the town received the Golf Leaf Award from the Mid-Atlantic chapter of the International Society of Arboriculture for its outstanding beautification efforts along the enhanced Van Buren Street median.

Golf Course

By continuing its tradition of providing high quality playing conditions and delivering premium value for the dollar, the golf course remains a *Golf Digest* “Place to Play” and is currently recognized with a three-star rating. During the fiscal year, the course retained its designation as a Certified Audubon Cooperative Sanctuary which requires continued commitment to maintaining a high degree of environmental quality and achieving specific program objectives such as wildlife and habitat management; outreach and education; chemical use reduction and safety; water conservation and water quality management.

Parks and Recreation

The department of Parks and Recreation received several recognitions and awards during fiscal year 2012, many of which were related to the 2011 Herndon Festival. The Washington Family Magazine survey identified the Herndon Festival as one of the area’s best festivals or celebrations for families. The Virginia Recreation and Park Society (VRPS) chose the 2011 Herndon Festival Poster as the “best promotional effort, circular, flyer, or poster” among localities with populations under 25,000. The department also achieved its first five-year reaccreditation from the National Recreation and Parks Association, a process that measures professionalism and excellence in all aspects of department operations.

Public Safety

The Herndon Police Department achieved its third consecutive reaccreditation with the Virginia Law Enforcement Professional Standards Commission (VLEPSC). This reaccreditation recognizes the department as a professional law enforcement agency meeting state standards.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Herndon, Virginia, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the thirty-seventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Distinguished Budget Presentation Award

GFOA has also awarded the town with the prestigious Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2011. This is the twenty-first consecutive year that the town has achieved this honor. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. In July 2012, the town's budget documents for the fiscal year beginning July 1, 2012 were submitted to GFOA for consideration of another Distinguished Budget Presentation Award.

ACKNOWLEDGEMENTS

The Town of Herndon has established and continues to maintain a stable financial position through strong, progressive management of financial operations combined with sound accounting and financial reporting practices. Appreciation is expressed to the Mayor and the members of the Town Council for their support and guidance and for the responsible manner in which they exercise their financial stewardship of the town.

This report could not have been prepared without the dedication of the entire staff of the Department of Finance. We wish to express our appreciation to all who assisted in its preparation and to commend them for the professionalism they displayed throughout the year.

Finally, we would also like to express our appreciation to the town's independent auditing firm, PBGH, LLP, for their cooperation and assistance in these efforts. We also wish to acknowledge PBGH's timely guidance which assures the town's financial management and accounting is in compliance with GASB statements and other governmental accounting standards.

Respectfully submitted,



ARTHUR A. ANSELENE
Town Manager



MARY K. TUOHY, CPA
Director of Finance



STEPHAN A. GREENNAGEL, CPA
Deputy Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Herndon
Virginia

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

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



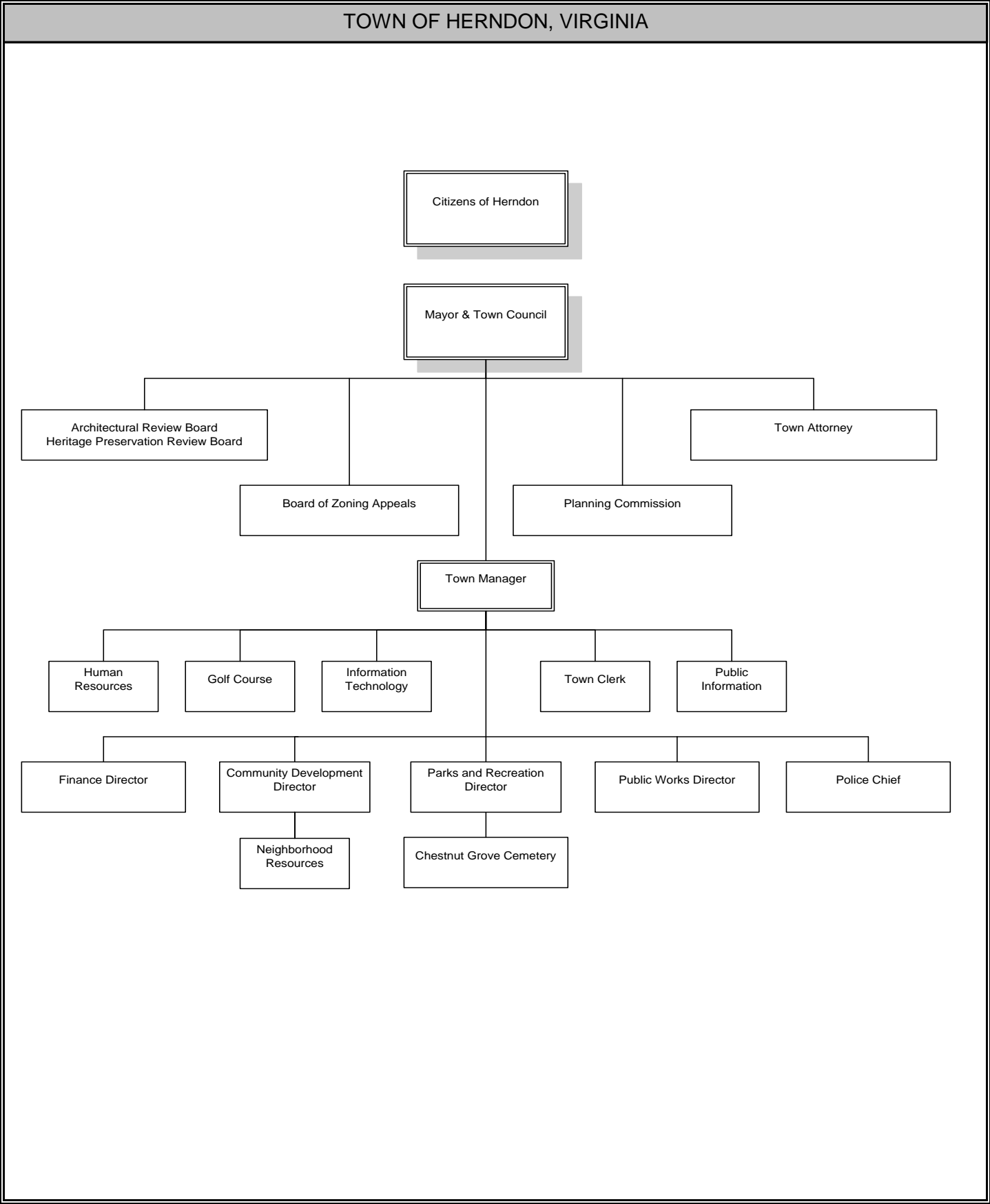
Linda C. Danison

President

Jeffrey R. Enos

Executive Director

**TOWN OF HERNDON, VIRGINIA
TOWN ORGANIZATION
FISCAL YEAR 2011-2012**





TOWN OF HERNDON, VIRGINIA

Enriching the Quality of Life and Promoting a Sense of Community

Comprehensive Annual Financial Report
Year Ended June 30, 2012

Directory of Officials

TOWN COUNCIL

Mayor

Stephen J. DeBenedittis

Vice Mayor

Lisa C. Merkel

Connie Haines Hutchinson

Shelia A. Olem

Jasbinder Singh

William B. Tirrell

Grace Han Wolf

MANAGEMENT TEAM

Town Manager

Arthur A. Anselene

Town Attorney

Richard B. Kaufman

William H. Ashton, II

Robert B. Boxer

Anne P. Curtis

Maggie A. DeBoard

Gene A. Fleming

Elizabeth M. Gilleran

Cynthia S. Roeder

Linda A. Simmons

Mary K. Tuohy

Town Clerk

Viki L. Wellershaus

Director of Information Technology

Director of Public Works

Public Information Officer

Chief of Police

Director of Golf Course Operations

Director of Community Development

Director of Parks and Recreation

Director of Human Resources

Director of Finance

Independent Auditor

PBGH, LLP

Prepared by the Department of Finance, Town of Herndon, Virginia



TOWN OF HERNDON, VIRGINIA
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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of Council
Town of Herndon, Virginia
Herndon, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (town), as of and for the year ended June 30, 2012, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the town as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund 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 19, 2012 on our consideration of the town's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 5 to 23) and the Required Supplementary Information (page 75) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedules listed in the table of contents as supplementary information and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the town's basic financial statements. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

PBGH, LLP

Harrisonburg, Virginia
November 19, 2012

Town of Herndon, Virginia Management's Discussion and Analysis

The following discussion and analysis of the Town of Herndon, Virginia's (town) financial statements provides an overview of the town's financial performance for the fiscal year ended June 30, 2012. Users of these financial statements are encouraged to consider the information presented here in conjunction with the town's basic financial statements and the information furnished in the transmittal letter found on page i of this report.

Financial Highlights

- The assets of the town exceeded its liabilities at the close of the fiscal year by \$114.4 million (*net assets*). Of this amount, \$29.3 million (*unrestricted net assets*) may be used to meet the town's ongoing obligations to citizens and creditors.

- The town's total net assets decreased during the fiscal year by approximately \$136,000. The decline was segregated to the governmental activities and is related primarily to an increase in operating costs for such functional areas as general government administration, police, public works and interest expenses in comparison to the previous fiscal year. Though several key revenue sources such as general property taxes, other local taxes and rental income fared quite well during the fiscal year, the increases were not sufficient to fund total governmental expenses. Also declining was the amount invested in capital assets, net of related debt.

- Total capital assets (exclusive of depreciation and amortization) increased by \$1.15 million with the continuation or completion of several major capital projects, such as:
 - constructing the Runnymede Park storm water management facility with two bio-retention areas and an associated under-drain system which is a more innovative approach to improving water quality than a traditional dry pond;
 - installing a new 250-ft. sidewalk at the town and county boundary near the vicinity of Spring Street and Sunset Hills Road and funding the project as a joint town-county endeavor;
 - continuing construction of the Pearl, Nash, Oak and Wood Streets neighborhood improvements which included installing underground conveyance pipes to improve the public storm water drainage system within the area as well as new sidewalks, roadway improvements, and minor sanitary sewer system modifications;
 - completing the first step of a multi-year project to relocate/place overhead utilities underground in the downtown area by installing duct banks and manhole structures on Elden Street from the W&OD Trail to the intersection of Spring and Station streets;
 - completing the preliminary design and engineering for two major street projects which are the Park Avenue and Monroe Street intersection project, and the Dranesville Road street improvements project;
 - continuing right-of-way acquisition for the Station Street road project;
 - completing the final design plans and engineering specifications for replacing the Park Avenue water line in fiscal year 2013; and
 - completing the golf course master plan phase II improvements which included fairway bunker and tee box renovations as well as replacing the asphalt cart paths and curbing.

These projects as well as equipment purchases and additional infrastructure donated by developers (such as streets, curbs, gutters, sidewalks, storm drainage facilities, and water and sewer mains) were added to the town's capital assets.

Town of Herndon, Virginia
Management's Discussion and Analysis

- As of the close of the current fiscal year, the town's governmental funds reported combined ending fund balances of \$19.3 million, an increase of \$648,000 over the previous fiscal year. The increase is related to a significant (eight percent) increase in the General Fund fund balance. Approximately 36 percent of the total governmental funds fund balance, which is \$6.9 million, is *available for spending* at the town's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, the unassigned portion of fund balance for the General Fund was slightly more than 23 percent of total General Fund expenditures, excluding transfers out from the fund.
- During the fiscal year, the town redeemed the tax-exempt portion of its 2003 general obligation bonds by issuing \$4.999 million in refunding bonds under the VML/VACo Finance Program. Net cumulative savings to the town from the refunding was \$492,610 over the life of the replaced (2003) bonds. With this issue, the town's outstanding principal balance for total bonded debt was \$20.3 million at June 30, 2012.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the town's basic financial statements. These basic financial statements consist of two different types, each of which presents a different view of the town's finances. The government-wide financial statements provide both long-term and short-term information about the town's overall financial condition. The fund financial statements focus on the operation of the individual funds that make up the town's government. The basic format used to display fund statement information is more detailed than the government-wide statements. The third component of the town's basic financial statements is the notes, which appear after the fund statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the town's finances, in a manner similar to private sector financial reporting. The first government-wide statement - 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 whether the financial health of the town is improving or declining. In addition, nonfinancial factors, such as a change in the town's real estate assessment values or the condition of the town's facilities and infrastructure, should be considered in assessing the overall financial health of the town.

The second statement - the Statement of Activities - presents information showing how the town's net assets changed during the most recently concluded fiscal year. Changes in net assets are captured and reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is actually received or paid. Thus, certain revenues and expenses are reported in this statement for items that will result in cash flows for future periods (e.g., uncollected taxes and earned, but unused, employee annual leave).

Both government-wide financial statements segregate 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 substantial portion of their expenses through user fees and charges (business-type activities). The government-wide financial statements are segregated as follows:

Town of Herndon, Virginia Management's Discussion and Analysis

Governmental Activities - Many of the activities, programs and services traditionally identified with government are reported here. These activities and services are Legislative, Administration, Town Attorney, Parks and Recreation, Finance, Community Development, Police and Public Works. These activities are financed primarily through property taxes, other local taxes, charges for services, and intergovernmental revenues (federal, state and local grants).

Business-type Activities - The town has four business-type activities, which are the Water and Sewer Fund (provides customers with water distribution and sewer conveyance); the Golf Course Fund (provides customers with recreational golfing opportunities); the Chestnut Grove Cemetery Fund (operates and manages the Chestnut Grove Cemetery); and the Downtown Parking Enterprise Fund (operates and manages the town's Downtown Public Shared Parking program). These funds charge a variety of user fees which are dedicated to support a majority, if not all, of fund expenses.

Fund Financial Statements

The fund financial statements provide more detailed information about the town's more significant funds. A "fund" is a grouping of related accounts that is used to maintain control over resources, which have been segregated for specific activities or purposes. 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Most of the town's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out; and (2) the balances remaining at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that assists financial statement users in determining whether there are more or fewer financial resources available in the near future to finance the town's programs and services.

Proprietary funds – These funds are used to account for the operation of services and activities that are financed in a manner similar to private business enterprises. Thus, costs generated by providing the activity or service are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both a short-term and long-term financial view. The town uses *enterprise funds* (one type of proprietary fund) to account for the activities of the Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund and Downtown Parking Enterprise Fund.

Fiduciary fund – A fiduciary fund is used to account for resources (e.g., assets) held for the benefit of a party outside of town government. The town is responsible for ensuring that the assets reported in the fund are used for their intended purpose. The town's fiduciary activities are reported in a separate statement of fiduciary net assets. The town excludes these activities from the town government-wide financial statements because the town cannot use these assets to finance its programs.

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 are located in the third section of this report and titled "Notes to Financial Statements."

**Town of Herndon, Virginia
Management's Discussion and Analysis**

Financial Analysis of the Town as a Whole

Table 1 below presents a Summary Statement of Net Assets for fiscal year 2012 in comparison to the previous fiscal year:

**TABLE 1
Summary Statement of Net Assets
June 30, 2012 and 2011
(in thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 29,891	\$ 28,322	\$ 17,685	\$ 16,862	\$ 47,576	\$ 45,184
Capital assets, net	84,734	86,612	17,501	18,393	102,235	105,005
Total assets	114,625	114,934	35,186	35,255	149,811	150,189
Current and other liabilities	10,290	9,307	1,505	1,622	11,795	10,929
Non-current liabilities	20,111	21,047	3,536	3,708	23,647	24,755
Total liabilities	30,401	30,354	5,041	5,330	35,442	35,684
Net Assets:						
Invested in capital assets, net of related debt	70,770	71,870	14,334	15,029	85,104	86,899
Unrestricted	13,454	12,710	15,811	14,896	29,265	27,606
Total net assets	\$ 84,224	\$ 84,580	\$ 30,145	\$ 29,925	\$ 114,369	\$ 114,505

Presented below is a comparative analysis of the government-wide information.

Statement of Net Assets:

As previously described, net assets may serve over time as a useful indicator of the town's financial position. For the most recently concluded fiscal year, the town's assets exceeded its liabilities by \$114.4 million. About 26 percent of the town's net assets are unrestricted and available to meet the town's ongoing obligations to citizens and creditors. The larger net asset subcomponent, labeled "Invested in capital assets, net of related debt", reflects the town's investment in capital assets (e.g., land, infrastructure, buildings, improvements, machinery and equipment, intangible assets and construction in progress, net of accumulated depreciation and amortization), less any related debt used to acquire those assets that is still outstanding.

The town uses its capital assets in providing services to its citizens; consequently, these assets are not readily 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 would not likely be used to liquidate these liabilities.

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During the fiscal year, the town's governmental net assets decreased by \$355,000 when compared to the prior fiscal year. The decrease is related primarily to an increase in operating costs for such functional areas as general government administration, police, public works and interest expense in comparison to the previous fiscal year. Though several key revenue sources such as general property taxes, other local taxes and rental income fared quite well during the fiscal year, the increases were not sufficient to fund total governmental expenses. In addition to governmental expense increases, the town transferred \$200,000 to the Downtown Parking Enterprise fund as set aside for the future construction of a parking garage in the downtown. Also declining was the amount invested in capital assets, net of related debt.

Total net assets reported in connection with the town's business-type activities increased by \$219,000. The increase is tied to the governmental fund transfer just described above and to developer capital contributions to the Water and Sewer Fund resulting in a net asset gain of \$27,000 for the Water and Sewer Fund. The Chestnut Grove Cemetery Fund and Downtown Parking Enterprise Fund also enjoyed net asset gains of \$17,000 and \$210,000 respectively. However, the Golf Course Fund suffered another net loss, ending the fiscal year with a decline of \$35,000 in net assets. Further analysis concerning the nature of these gains and losses is discussed on the next page under "Business-type Activities."

Statement of Activities:

Governmental Activities

Revenues: For the fiscal year ended June 30, 2012, revenue from governmental activities totaled \$33.0 million. Sources of revenue for fiscal year 2012 are comprised of many different types with taxes (both general property and other local taxes) constituting the largest source of town revenues.

The assessed value of real property within the town increased 5.1 percent over the prior year and was the first increase in real property assessments since January 1, 2008. With the increase in assessments, the town's general property taxes increased \$366,000 over the prior fiscal year.

Though general property taxes constitute the single largest tax source to the town, the town also assesses other local taxes and fees that are primarily consumer-related. These other local revenue sources are consumer utility tax, bank stock tax, cigarette tax, business license (BPOL) fees, transient occupancy (hotel/motel) tax, meals tax and the town's share of the local sales tax.

Effective fiscal year 2012, the town meals tax rate increased from 1.5 percent to 2.5 percent. Of the increase in revenue, the \$750,000 generated from the rate increase was then dedicated toward financing the following four initiatives:

- o Begin initiation of selected recommendations identified in a recent town economic development study at \$75,000;
- o Begin a major road repaving program at \$325,000;
- o Continue with the downtown utility relocation capital program at \$150,000; and
- o Begin setting aside seed money to be dedicated toward a future parking garage in the downtown at \$200,000.

**Town of Herndon, Virginia
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Remittances from the town's four major local taxes, and in particular business license taxes, enjoyed an overall increase of thirteen percent in comparison to the previous fiscal year. A majority of the increase is tied to the recent change in the town's meals tax rate. After factoring in the rate change, the actual growth in collections was still a healthy four percent. The current situation reflects the slowly improving regional economy and marks the continuation of an upward economic trend.

In addition, the town received capital grants and contributions totaling \$2.6 million. Major grant-related capital projects undertaken this fiscal year included constructing the Runnymede Park storm water facility; easement acquisitions as part of the Station Street improvements project; installing sidewalk near the town-county boundary at Spring Street; installing duct banks and manhole structures as part of the downtown utility relocation capital project; conducting engineering studies of the Sterling Road and Herndon Parkway intersection; and purchasing four alternative-fuel (hybrid) vehicles. Also included in capital grants and contributions are a portion of the town's annual state allocation for highway maintenance and the value of developer-donated street and storm drainage infrastructure.

Expenses: Expenses for governmental activities, including interest on debt service, totaled \$33.1 million which is a six percent increase over the previous fiscal year. The increase in expenses was expected as positions which had been vacant during the previous fiscal year in general government administration, police and public works were filled during the current fiscal year. The town's adopted budget for fiscal year 2012 authorized a 2.5 percent cost-of-living (COLA) pay adjustment for all regular full-time and part-time employees which became effective July 1. In addition, the town's 2003 bond issue refunding resulted in additional interest expenses of \$287,000 for the fiscal year.

As indicated in Table 2, the town's three largest and highest priority programs (other than general government administration which actually represents four functional areas) are police, public works and parks and recreation. These three programs, when taken together, comprise 76 percent of total governmental expenses.

Business-type Activities

The town has four business-type activities, which are segregated and accounted for as enterprise funds. During the current fiscal year, business-type activities increased the town's net assets by \$219,000. The following highlights center on the financial activities of the town's enterprise funds:

Water and Sewer Fund: Total operating and nonoperating revenues amounted to \$7,151,000, with water and sewer availability fees and interest earnings (a combined \$900,000) accounting for approximately 13 percent of total revenues. Though interest rates remained low throughout the fiscal year, investment earnings for the fund increased almost \$270,000 over the previous fiscal year. Total user charges assessed for water sales and sewer services during the fiscal year also increased by \$444,000 over the previous fiscal year. The increase is related to the adopted adjustments to the sewer commodity rate and quarterly service charges which went into effect for billing purposes on January 1, 2012. The full effect of the rate changes will become more evident during fiscal year 2013.

Operating expenses of the fund, which totaled \$7,174,000, included wholesale sewer conveyance charges of \$3.07 million, wholesale water purchases of \$1.53 million as well as \$69,000 in installment payments toward the purchase of an additional 1.0 million gallons per day (MGD) of water capacity from Fairfax Water. The fund's net assets increased during the fiscal year by \$27,000, due to the addition of developer donated assets valued at \$51,000.

Town of Herndon, Virginia
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Golf Course Fund: Total operating revenues amounted to \$1,482,000, which is an increase of 11 percent over the previous fiscal year and corresponds to the total number of golf rounds played (at 33,400) which increased 11 percent as well. Over the past several years, fee refinements (such as resident weekday passes, sunset rates, single occupancy cart rates and discounted off-season rates) have been moderately successful in attracting new customers while retaining existing customers. In addition to competitive rates, continued emphasis on excellent customer service and stocking high quality merchandise within an attractive pro shop setting have proven to be key elements of the course's long-standing success.

Operating expenses of the fund, which totaled \$1,491,000, included personnel costs, turf maintenance and other operating supplies, depreciation and amortization costs and other miscellaneous expenses. Throughout the fiscal year, on-going efforts were made to reduce anticipated expenses without compromising levels of service. Approximately \$45,000 in savings was realized through reductions in seasonal personnel, products for resale, materials and supplies and capital equipment. However, even these cost saving measures weren't enough to offset an income loss for the fund. As such, the fund's net assets decreased \$35,000 by fiscal year end.

Chestnut Grove Cemetery Fund: Total operating revenues amounted to \$673,000 and represent an increase of eight percent over the previous fiscal year. Most of the increase is attributed to the sale of cemetery sites and interment services with total receipts about 13 percent above the previous fiscal year's total. During the fiscal year, the cemetery sold 204 interment lots (including cremation sites), and performed 138 burials.

Operating expenses of the fund amounted to \$592,000 and included depreciation and amortization expenses attributed to the administration and maintenance buildings. Nonoperating expenses included \$95,000 in bond interest costs. At the conclusion of the fiscal year, the fund's net assets increased by \$17,000.

Downtown Parking Enterprise Fund: Total operating and nonoperating revenues amounted to \$40,000 and consisted of annual parking maintenance fees; partial recovery of a previously written-off promissory note; and interest earnings on outstanding public shared parking promissory notes. Operating expenses of the fund totaled \$29,000 and included depreciation and amortization expenses of \$5,000. The fund also received a \$200,000 transfer-in from the General Fund which was set aside as "seed money" for the future construction of a parking garage in the downtown. At the conclusion of the fiscal year, the fund's net assets increased by \$210,000.

**Town of Herndon, Virginia
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The following table summarizes the changes in net assets for the town for the fiscal years ended June 30, 2012 and 2011:

**TABLE 2
Summary of Changes in Net Assets
Fiscal Years Ended June 30, 2012 and 2011
(in thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,352	\$ 4,384	\$ 7,874	\$ 7,248	\$ 12,226	\$ 11,632
Operating grants and contributions	1,672	1,965	392	556	2,064	2,521
Capital grants and contributions	2,570	1,238	50	314	2,620	1,552
Total program revenues	8,594	7,587	8,316	8,118	16,910	15,705
General revenues:						
General property taxes	9,484	9,118	-	-	9,484	9,118
Other local taxes	12,021	10,963	-	-	12,021	10,963
Use of money and property	899	725	548	291	1,447	1,016
Intergovernmental non-categorical aid	1,791	1,828	-	-	1,791	1,828
Miscellaneous	201	258	559	560	760	818
Total general revenues	24,396	22,892	1,107	851	25,503	23,743
Total revenues	32,990	30,479	9,423	8,969	42,413	39,448
Expenses:						
General government administration	4,995	4,687	-	-	4,995	4,687
Parks and recreation	4,360	4,364	-	-	4,360	4,364
Community development	2,139	2,346	-	-	2,139	2,346
Police	8,834	8,548	-	-	8,834	8,548
Public works	11,861	10,493	-	-	11,861	10,493
Interest	939	807	-	-	939	807
Water and sewer	-	-	7,174	6,716	7,174	6,716
Golf course	-	-	1,531	1,477	1,531	1,477
Chestnut Grove cemetery	-	-	687	698	687	698
Downtown parking	-	-	29	78	29	78
Total expenses	33,128	31,245	9,421	8,969	42,549	40,214
Changes in net assets before transfers	(138)	(766)	2	-	(136)	(766)
Transfers	(218)	(10)	218	10	-	-
Changes in net assets	(356)	(776)	220	10	(136)	(766)
Net assets, July 1	84,580	85,356	29,925	29,915	114,505	115,271
Net assets, June 30	\$ 84,224	\$ 84,580	\$ 30,145	\$ 29,925	\$ 114,369	\$ 114,505

**Town of Herndon, Virginia
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds - The General Fund is the major governmental fund of the town. The town's other governmental funds are the Capital Projects Fund, which accounts for all transactions related to general town construction projects (with the exception of construction related to the enterprise funds) and two non-major governmental funds. The non-major governmental funds are the Information Systems Improvement Fund (which accounts for the acquisition and installation of automated equipment, telecommunications and other information systems improvements) and the Chestnut Grove Cemetery Perpetual Care Fund (which accounts for the accumulation of resources to be used for the perpetual care and maintenance of the Chestnut Grove Cemetery).

Governmental fund balance portions are allocated into five categories. These categories are "nonspendable", meaning the amounts are not in a spendable form, such as inventories; "restricted", meaning externally imposed restrictions or enabling legislation exist on the amounts reported; "committed", meaning internally imposed restrictions authorized by the government's highest level of decision-making authority exist on the amounts reported; "assigned", meaning the government intends to use the amounts reported for a specific purpose; and "unassigned", meaning the amounts reported have not been assigned to other funds nor have they been restricted, committed, or assigned to a specific purposes in the General Fund. At the end of the current fiscal year, the total General Fund fund balance was \$8.8 million with the unassigned portion totaling \$6.9 million. This amount represents 23 percent of the General Fund's total expenditures for fiscal year 2012.

The Capital Projects Fund's fund balance contained an assigned portion of \$8.9 million at fiscal year-end which represents assets dedicated to subsequent years' capital expenditures.

The fund balance of the town's General Fund increased by \$631,000 during the fiscal year, which is significant since the final budgeted decline was projected at \$1,398,000. Specific details concerning governmental financial activities are as follows:

Revenues:

- Based on the annual assessment as of January 1, 2011, the assessed value of real property within the town increased 5.1 percent over the prior year and was the first increase in real property assessments since January 1, 2008. Unlike last year's major decline in commercial property assessments, the assessments for this sector actually increased three percent over the assessments of a year ago. Much of the increase in commercial assessments was concentrated in multi-family apartment buildings (which increased about 14 percent), hotel properties (which increased about 11 percent), and office-elevator commercial space (which increased about two percent). Total general property tax revenues increased almost four percent compared to the prior fiscal year.
- Some of the town's local tax sources enjoyed moderate to significant increases over the previous fiscal year. These were right-of-way use fees, transient lodging taxes, cable TV franchise fees, business license taxes, the town's share of local sales taxes, and meals tax collections. The meals tax rate was increased effective July 1, 2011, from 1.5 percent to 2.5 percent.
- Other local tax sources which were either stagnant or declined in comparison to the previous fiscal year were consumer utility taxes, cigarette taxes, and bank stock taxes. Also declining in comparison to the prior fiscal year were permits, privilege fees and regulatory licenses.

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- Court fees remitted from Fairfax County increased about 12 percent over amounts collected during the previous fiscal year. As noted over the past several years, court fines are difficult to predict since the imposition of these fines is up to the discretion of the presiding judge. Some judges favor community service sentencing in lieu of monetary fines while others adhere to increased financial sanctions.
- Various short-term and medium-term investment instruments assigned to the governmental funds earned approximately \$554,000 in interest revenue during the fiscal year. With the Federal Reserve interest rates on overnight funds (fed funds) ranging from 0.00 to 0.25 percent, interest rates on other, intermediate-term investment vehicles averaged about 2.0 percent. Revenue from interest on investments is highly dependent on Federal Reserve actions.
- Intergovernmental revenues, which totaled \$5,602,000, included grant reimbursements from Fairfax County for its agreed share of operating costs associated with the Neighborhood Resource Center and a \$40,000 contribution toward the town's tourism and economic development initiatives. Under state aid, the town received payments for police reimbursement, a pro-rata share of the state's communication sales and use tax, street and highway maintenance funding, a pro-rata share of the state's fire fund monies, litter control grant and vehicle rental taxes.
- Federal grant receipts included reimbursements under the Gang Task Force program; the Internet Crimes against Children grant managed by the Virginia State Police; the purchase of three alternative fuel vehicles; and reimbursement of salary and benefits costs of the town's housing specialist under a US Department of Housing and Urban Development community development block grant administered by Fairfax County. Also reimbursed were the downtown utility relocation project construction costs and other capital projects.

Expenditures:

- The town's adopted budget for fiscal year 2012 authorized a 2.5 percent cost-of-living (COLA) pay adjustment for all regular full-time and part-time employees which became effective July 1. In addition, several positions which had been vacant at the end of the previous fiscal year (particularly within police and public works operations) were filled during the current fiscal year.
- During the fiscal year, the town undertook two key initiatives, as recommended by the town's Economic Development Task Force. With the assistance of a consultant, the first initiative focused on developing a brand identification and strategy for the town. The second initiative, also undertaken with outside consultants, focused on research concerning perceptions of the town's restaurants and foodservice industry. Expenditures for these studies totaled about \$61,000.
- Parks and recreation costs for the current fiscal year included staffing and operating costs associated with the Community Center operations. Also incurred were costs to continue the phased replacement of aging recreation equipment.
- A significant cost decrease of nine percent noted for the Department of Community Development is related to the transfer of the town's Neighborhood Resource Center. In October 2011, the Center's operation was transitioned from the town to Fairfax County, thus saving the town about \$256,000 in combined operating and personnel expenditures for the fiscal year.

Town of Herndon, Virginia Management's Discussion and Analysis

- Police department expenditures for the fiscal year included filling several vacant police positions, acquiring nine replacement police cruisers and purchasing three grant-funded hybrid vehicles for use by command staff and detectives. The average mileage of the replaced vehicles was close to 100,000 miles with several of these older vehicles exhibiting serious mechanical failures.
- Costs in the Department of Public Works are related to the maintenance of town streets, sidewalks, storm drainage, grounds, buildings, park lands and other town-owned or town-managed facilities. During the fiscal year, the town performed several major building maintenance activities including upgrades to the HVAC controls and a roof replacement at the Herndon Municipal Center. Also included were costs for repair, maintenance and fuel for the town's fleet of vehicles and equipment.
- Total debt service principal for the current fiscal year was \$297,000 less than the previous fiscal year primarily due to reduced principal payments. Total debt service interest for the current fiscal year was \$143,000 less than the previous fiscal year.
- During the fiscal year, the town incurred \$2.3 million in expenditures for several major capital projects and information systems improvements. A detailed discussion of the more significant projects can be found in the Capital Assets section beginning on page 18.

Proprietary funds - The town's enterprise funds, which are a type of proprietary fund, provide the same type of information found in the government-wide financial statements, but in greater detail. At June 30, 2012 the unrestricted net assets for each of the four enterprise funds were as follows:

- Water and Sewer Fund with an amount of \$13,848,000
- Golf Course Fund with an amount of \$824,000
- Chestnut Grove Cemetery Fund with an amount of \$325,000
- Downtown Parking Enterprise Fund with an amount of \$814,000

Other factors concerning the finances of these four funds have already been addressed in the discussion of the town's business-type activities which appeared on pages 10-11.

GENERAL FUND BUDGETARY HIGHLIGHTS

In developing the town's fiscal year 2012 budget and CIP program, the 2030 Vision Plan adopted by the town council in December 2010 (along with the individual goals and objectives contained in the Plan) provided staff with overall guidance. Goals and objectives specific to the development and execution of the fiscal year 2012 budget were:

- Maintain current service levels with no reinstatement of services previously reduced in fiscal years 2010 and 2011.
- Implement economic development strategies to enhance the town's economic base.
- Maintain efforts to promote preservation and enhancement of neighborhoods through the Neighborhood Inspection Program and the Rental Inspection Program.
- Implement the approved master plan for the downtown area and initiate the Herndon Metrorail Area Plan study.
- Continue advancement of neighborhood improvement projects.

**Town of Herndon, Virginia
Management's Discussion and Analysis**

- Beginning in October 2011, transition the operations of the town's Neighborhood Resource Center from the town to Fairfax County.
- Obtain grants and seek alternative funding options for transportation enhancements, park facilities and police equipment and operations.

Following two years of economic uncertainty caused by the nationwide recession, the town experienced modest improvements in its revenue base. The assessed value of real property within the town increased 5.1 percent over the prior year. In response to the increase in assessed real property values, the town's real estate tax rate was decreased slightly from \$0.2675 per \$100 of assessed value to \$0.265 per \$100 of assessed value.

Projections for fiscal year 2012 recurring revenues, which included real estate and other taxes, permit fees, planning fees, fines, grants, interest income and fees for services were approximately five percent above revised estimates for fiscal year 2011. The projections included an increase in the town's meals tax rate (from 1.5 percent to 2.5 percent) which added approximately \$750,000 to the town's recurring revenue stream.

At the conclusion of the fiscal year, actual revenues were \$672,000 (or about two percent) more than final budgeted amounts. Much of this variance is related to substantial collection increases in other local taxes, fines and forfeitures, charges for services and miscellaneous. Actual revenues attributed to the use of money and property (which is interest earnings and rental income) were \$264,000 (or about 34 percent) less than projected due to lower than anticipated interest rates and vacant rental property at 397 Herndon Parkway.

A large variance of \$1.343 million between actual expenditures (including transfers out) and the final budget was due to several circumstances. Comparing the final budget to actual revenues and expenditures reveals the following highlights:

Revenues:

- Real property assessment values as of January 1, 2011 increased overall by five percent above assessments for the previous year. The increase occurred mainly within the residential sector of the tax base which experienced an overall assessment growth of seven percent. In response to the increase in assessed real property values, the town's real estate tax rate was decreased slightly from \$0.2675 per \$100 of assessed value to \$0.265 per \$100 of assessed value.
- Actual real estate tax collections were about \$45,000 more than projected due to fewer than anticipated property assessment exonerations generated by Fairfax County during the fiscal year. Real property assessments of land and buildings within the county and its towns, as well as subsequent supplements and exonerations, are conducted by the county's Division of Real Estate Assessment. These assessments, supplements and exonerations are used by the town to levy the town's own real estate taxes.
- The town meals tax rate was increased effective July 1, 2011 from 1.5% to 2.5% which anticipated an additional \$750,000 in additional collections. Actual meals tax collections were about \$169,000 more than projected and is attributed to growth in restaurants sales overall.

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- Several local revenue sources either increased moderately or held steady during fiscal year 2012. Such consumer-sensitive revenue sources as cable TV franchise fees, business license fees, motor vehicle licenses, local sales taxes and meals taxes enjoyed an upswing in collections during the fiscal year, resulting in actual revenues comfortably exceeding the fiscal year 2012 budget projections. The fiscal year 2012 original budget projection for other local tax sources was about eleven percent above the budget projection for fiscal year 2011. By fiscal year end, actual revenues from other local tax sources for fiscal year 2012 were almost ten percent (or about \$1,059,000) above actual amounts for fiscal year 2011.
- Revenues from permits, privilege fees and regulatory licenses were about 18 percent below budgeted amounts. Unlike the previous fiscal year which included building permits for the final phase of the Darlington Oaks residential subdivision, the current fiscal year saw little in the way of major developer and construction activities.
- Interest earnings and rental payments together were 34 percent below budget projections. Interest earnings from the investment of temporarily idle cash balances totaled only \$175,000, due to lower than anticipated interest rates. The town's commercial property at 397 Herndon Parkway was only partially leased during the fiscal year and contributed \$346,000 in rental payments to the town. The town had budgeted almost \$438,000 from this revenue source.
- Actual revenue from charges for services was approximately four percent (or about \$139,000) above budgeted amounts. The increase is mainly attributed to growth in recycling fees, recreation program fees, admission fees, and Herndon Festival revenues.
- Overall, total actual intergovernmental revenues were only slightly above projected amounts. Many individual revenue items, however, showed significant variances. Receipts from the town's share of the state's communications sales and use tax were about five percent less than projected. On the other end of the spectrum, grant receipts under the Congestion Mitigation and Air Quality Improvement (CMAQ) program garnered an \$89,000 reimbursement for the purchase of alternative fuel vehicles. The CMAQ grant was not included as part of the town's fiscal year 2012 budget.

Expenditures:

- Expenditure amounts for all operating departments (with the exception of police, grants and debt service) were less than the final budgets due to less than anticipated operating costs and delayed acquisition of vehicles and other capital equipment, particularly in public works. Funding for several of these budgeted items was subsequently carried-over and incorporated into the fiscal year 2013 appropriations. Also impacting the final budget was the first budget amendment in July 2011 which established fiscal year 2012 carry-over appropriations for the June 30, 2011 outstanding purchase orders and authorized reserves.
- Budget amounts for grant expenditures did not include federal pass-through grants administered by the State police, DMV and the Department of Justice grant for police gang task force activities.

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Capital Assets

The town's investment in capital assets at June 30, 2012, which amounted to approximately \$105 million (net of accumulated depreciation and amortization), is summarized in Table 3. For comparative purposes, amounts from the previous fiscal year are also displayed.

**TABLE 3
Summary Capital Assets
June 30, 2012 and 2011
(in thousands)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Capital assets, not being depreciated or amortized:						
Land and easements	\$ 25,828	\$ 25,665	\$ 3,418	\$ 3,418	\$ 29,246	\$ 29,083
Construction in progress	947	620	158	421	1,105	1,041
Total capital assets, not being depreciated or amortized	26,775	26,285	3,576	3,839	30,351	30,124
Capital assets, being depreciated or amortized:						
Infrastructure	76,710	76,122	-	-	76,710	76,122
Buildings	40,463	40,457	3,580	3,580	44,043	44,037
Improvements other than buildings	10,173	10,287	28,637	28,182	38,810	38,469
Machinery and equipment	9,797	9,701	2,572	2,577	12,369	12,278
Leasehold improvements	-	146	-	-	-	146
Furniture and fixtures	1,750	1,740	208	208	1,958	1,948
Intangibles	1,194	1,159	269	269	1,463	1,428
Total capital assets, being depreciated or amortized	140,087	139,612	35,266	34,816	175,353	174,428
Less total accumulated depreciation and amortization	(82,128)	(79,285)	(21,341)	(20,262)	(103,469)	(99,547)
Total capital assets being depreciated and amortized, net	57,959	60,327	13,925	14,554	71,884	74,881
Capital assets, net	\$ 84,734	\$ 86,612	\$ 17,501	\$ 18,393	\$102,235	\$105,005

During the fiscal year, the town incurred expenditures for several major capital projects and information systems improvements. Expenditures involving conceptual studies and initial design plans will, in all likelihood, result in the construction of major facilities and street infrastructure within the next several years.

**Town of Herndon, Virginia
Management's Discussion and Analysis**

Major capital expenditures incurred during the fiscal year were for the following capital projects:

- **Runnymede Outfall Storm Drainage:** This capital project included the construction of a storm water management facility on a small parcel of land by Runnymede Park. The facility was designed with two bio-retention areas and an associated under-drain system. This design was a more innovative approach to improving water quality than a traditional dry pond. In addition, the project serves as an educational tool for the community, informing the public about alternative approaches to storm water management and the impact of storm water on Runnymede Park, Sugarland Run and the Chesapeake Bay.
- **Spring Street Sidewalk:** This capital project, a joint effort between the town and Fairfax County, installed a new 250-ft. sidewalk at the town and county boundary near the vicinity of Spring Street and Sunset Hills Road. The project included a crosswalk across the Fairfax County Parkway ramps with retrofits to the traffic signal associated with the pedestrian crossing, new curb cuts through the median, striping, new handrails and other associated improvements.
- **Pearl, Nash, Oak and Wood Streets Improvements:** This capital project includes the installation of underground conveyance pipes to improve the public storm water drainage system within the area. In addition to the storm water drainage improvements, new sidewalk and roadway improvements were installed, along with minor sanitary sewer system modifications. Work on these improvements will continue through early fall 2012 and be followed by street repaving.
- **Station Street Improvements:** This capital project, which began in earnest during the previous fiscal year, continued with acquisition of a majority of the remaining right-of-way easements and land purchases which are needed before construction begins. Improvements will include the installation of curb and gutter, sidewalks, storm drains, undergrounding of overhead utility lines, and new water lines in various sections of Station Street from Pine Street to Park Avenue. Construction is anticipated to begin during fiscal year 2014, after final land acquisition and undergrounding of overhead utilities.
- **Park Avenue and Monroe Street Intersection:** This capital project will improve the street and drainage system components mainly along Park Avenue and on both sides of the Monroe Street intersection. A major element of the project will involve the reconfiguration of the Monroe Street intersection with Park Avenue. During the fiscal year, project final design efforts were continued. Land acquisition, utility relocation and construction are anticipated during fiscal years 2013 and 2014.
- **Downtown Utility Relocation:** The town obtained an \$800,000 federal stimulus grant to initiate the future undergrounding of utilities in the downtown. The grant was augmented in August 2010 with an additional award of \$160,000. The first step in this multi-year project was to install duct banks and manhole structures on Elden Street from the W&OD Trail to the intersection of Spring and Station streets. During the fiscal year, the construction of the first phase was completed.
- **Dranesville Road Improvements:** This capital project will provide several enhancements to Dranesville Road beginning at Bennett Street and continuing to Park Avenue at Tyler Street. A raised median with landscaping and new street lights will be installed. Also to be constructed are new bike lanes and dedicated turn lanes at various intersections. The most important feature is the traffic calming the street's new configuration will provide. This should add significantly to overall vehicle, bicycle, and pedestrian safety within the area.

**Town of Herndon, Virginia
Management's Discussion and Analysis**

- **Major Road Repaving:** The town's adopted budget for fiscal year 2012 included an increase in the town's meals tax rate from its previous rate of 1.5 percent to its current rate of 2.5 percent. The additional meals tax collections were then dedicated to four discrete projects and included resources to begin repaving the major roadways within the town's arterial street network. For the fiscal year just concluded, the outside loop of the Herndon Parkway from Elden Street to Spring Street as well as certain sections of Spring Street and east Elden Street were repaved. Subsequent fiscal years will concentrate on repaving other sections of the Herndon Parkway and Elden Street.
- **Information Systems Improvements:** Included as an integral component of the town's information systems and telecommunications master plan is the systematic replacement of older PC's, file servers and laptops on a lifecycle basis. During the fiscal year, approximately \$17,000 was expended on replacement of older desktop PCs and network printers. The town also expended about \$143,000 to replace all its core networks and switches at the Herndon Municipal Center and Dranesville hub and to purchase the necessary software licenses for the new Town Council webcast system housed on the town's website. In addition, substantial attention was focused on continuing IT architectural changes to support the town's IT disaster recovery plans. The second phase of the program is the virtualization of desktop infrastructure (VDI) which, once implemented, will allow town staff the flexibility to connect (via internet) and engage with the town's IT systems from anywhere in the world.
- **Waterline Replacement Projects:** The final design plans and engineering specifications for replacing the Park Avenue water line, from Monroe Street to Dranesville Road, was undertaken during the fiscal year. Installation of the new water main, which will also include new water services and fire hydrants, is scheduled for fiscal year 2013. Preliminary engineering for two new water line projects was also begun during the year. These were the Locust, Pine and Station Streets water line improvements and the Center, Spring, and Elden Streets water line improvements.
- **Golf Course:** As part of the course's master plan phase II improvements, renovation of ten fairway bunkers and reconstruction of two tee complexes were completed during the prior fiscal year. The capital project also included replacing approximately 23,000 linear feet of asphalt cart paths and installing curbing. These latter efforts were completed in summer 2011.

Additional information concerning the town's capital assets can be found in Note 6 of the financial statements.

LONG-TERM DEBT

At June 30, 2012, the town's long-term liabilities, exclusive of compensated absences and amounts to be repaid within one year, totaled \$19,676,000. Of this amount, \$16,572,000 is a liability attributed to governmental activities with the remaining \$3,104,000 is attributed to business-type activities. The Town's available legal debt margin, as permitted by the Commonwealth of Virginia, is \$329 million. The margin's computation is based on 10 percent of the assessed value of real estate subject to taxation less applicable bonded debt outstanding.

**Town of Herndon, Virginia
Management's Discussion and Analysis**

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the town's debt position. Data for the town at June 30, 2012 is as follows:

Estimated Population	Assessed Valuation of Taxable Real Property	Governmental Net Bonded Debt	Ratio of Debt to Assessed Valuation	Net Bonded Debt per Capita
23,556	\$ 3,455,689,497	\$ 16,964,751	.0049	\$ 720

During the fiscal year, the town redeemed the tax-exempt portion of its 2003 general obligation bonds by issuing \$4.999 million in refunding bonds under the VML/VACo Finance Program. The refunding bonds have a twelve-year life and a true interest cost of 2.15 percent. Net cumulative savings to the town from the refunding was \$492,610 over the life of the replaced (2003) bonds. With this issue, the town's outstanding principal balance for total bonded debt was \$20.3 million at June 30, 2012.

In June 2012, Fitch Ratings, Inc. conducted its bi-annual surveillance review of the town's finances and management. The firm reaffirmed the town's credit rating of "AAA" and noted in particular the town's adherence to good debt management guidelines and low overall debt levels. The town also has ratings from Moody's Investors Service, Inc. (designed as "Aaa") and Standard & Poor's (designed as "AAA"). These credit ratings are one of the highest among towns in Virginia.

More detailed information concerning the town's long-term obligations is presented in Note 7 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following economic factors are reflected in the town's adopted budget for fiscal year 2013:

- Based on the most recently completed annual reassessment, the assessed value of real property within the town was \$3,794,021,744 as of January 1, 2012. When compared to the total assessed values at January 1, 2011, this amount represents a combined eight percent increase, with residential properties increasing five percent and commercial properties increasing 10 percent. These latest numbers affirm that real property assessments are regaining some of the values lost during the three years immediately preceding January 1, 2010.
- The town's meals tax rate increase, which became effective for fiscal year 2012, changed the rate from its previous 1.5 percent to the current rate of 2.5 percent. As in the prior fiscal year's budget, \$750,000 of meals tax revenue will be used to finance the following four initiatives:
 - Continue implementing the core strategies recommended by the town's Economic Development Task force, to include a branding initiative for the town, at \$75,000;
 - Continue major road repaving at \$325,000;
 - Continue funding the downtown utility relocation project at \$150,000; and
 - Continue to dedicate funds toward a future parking garage in the downtown at \$200,000.

Town of Herndon, Virginia Management's Discussion and Analysis

- Several local revenue sources either increased moderately or held steady during fiscal year 2012 with such consumer-sensitive revenue sources as transient lodging tax, meals tax and local sales tax faring better than initially projected. Revenue projections for fiscal year 2013 assume this economic recovery to continue, albeit slowly, and eventually lead to sounder financial footing by mid-to-late 2014. The fiscal year 2013 budget maintains all tax rates and fees at their fiscal year 2012 levels.
- The July 2012 unemployment rate in Fairfax County (which includes the Town of Herndon) is estimated at 4.2 percent compared to the actual rate of 4.3 percent in July 2011. In comparison, Virginia's seasonally unadjusted unemployment rate for July 2012 is 5.9 percent and the U.S. unemployment rate is estimated at 8.3 percent.

The total adopted fiscal year 2013 budget, including inter-fund transfers, is \$46,240,000 which is about two percent more than the original budget for fiscal year 2012. Most of the increase is related to personnel costs, which included a two-percent cost-of-living (COLA) increase for all employees; a 2.5 percent merit increase for police officers and a five-percent salary adjustment for employees participating in the Virginia Retirement System (VRS). In exchange for the five percent pay adjustment, all VRS employees now pay the "employee five-percent portion" of the town's VRS contributions, as required by legislation passed in the 2012 Virginia General Assembly session. Beginning July 2012, the town will only be funding the "employer portion" of the VRS contributions.

Four vacant positions will remain vacant (i.e., "frozen") and unfunded for fiscal year 2013. These positions are two police officers, a senior accounting technician and an assistant work crew supervisor in the refuse division. Since fiscal year 2008, the town's list of authorized regular and part-time positions has contracted from 285 positions to 264 positions, a drop of eight percent.

The fiscal year 2013 budget for all capital projects and information systems improvements is \$4.342 million, which is a decrease of \$678,000 from fiscal year 2012.

In addition to the three capital projects to be funded with revenues generated from the town's meal tax collections, below are the other major capital initiatives for the fiscal year:

- \$225,000 to install lighting along the downtown portion of the W&OD Trail, between Van Buren Street and Ferndale Avenue. Over the years, popularity of the W&OD Trail as another route to access the downtown has grown. Lighting will allow for night use of the trail and provide pedestrian safety.
- \$240,000 to rebuild the storm drainage ponds at the Town Shop and the Golf Course. These efforts are tied into the town's stormwater management programs and anticipated new federal regulations concerning Chesapeake Bay pollution limits.
- \$235,000 for support of the major maintenance and repair costs for town-owned facilities. Projects funded for fiscal year 2013 include replacing the HVAC systems at the old Town Hall and installing emergency lighting in the Herndon Municipal Center garage.
- \$600,000 to continue the study and eventual construction of significant transportation improvements at three Herndon Parkway intersections. Funding for this project is through a federal Regional Surface Transportation Program (RSTP) grant.

**Town of Herndon, Virginia
Management's Discussion and Analysis**

- \$225,000 in Congestion Mitigation-Air Quality (CMAQ) funds to continue the study and evaluation of options for the W&OD Trail crossing at Crestview Drive. The overall purpose of the project is to promote trail safety and prevent vehicle and trail user conflicts as a result of increasing traffic volumes along Crestview Drive.
- \$225,000 for the purchase of information technology software upgrades and replacements.
- \$1,192,000 for water and sewer capital projects, including improvements to the downtown sewer and water mains; sewer main rehabilitation in the golf course area; engineering evaluations of the town's water tank repainting schedules and designing three booster pump stations for installation in fiscal year 2014.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the town's finances and to demonstrate the town's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Town of Herndon, Department of Finance, P.O. Box 427, Herndon, VA 20172-0427.

TOWN OF HERNDON, VIRGINIA

Exhibit A-1

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents and temporary cash investments	\$ 19,505,402	\$ 16,213,070	\$ 35,718,472
Cash with fiscal agent	3,154,782	-	3,154,782
Receivables, net:			
Property taxes	5,031,487	-	5,031,487
Trade and other accounts	663,010	1,332,863	1,995,873
Accrued interest	90,741	65,878	156,619
Due from other governments	853,923	-	853,923
Inventories	127,084	44,127	171,211
Prepaid costs	60,709	6,531	67,240
Notes receivable	-	122,135	122,135
Internal balances	164,645	(164,645)	-
Deferred bond costs, net of accumulated amortization	239,237	64,900	304,137
Capital assets:			
Land	25,824,692	3,418,338	29,243,030
Easements	3,498	-	3,498
Infrastructure	76,709,998	-	76,709,998
Buildings	40,462,681	3,579,748	44,042,429
Improvements other than buildings	10,172,677	28,636,527	38,809,204
Machinery and equipment	9,796,919	2,572,213	12,369,132
Furniture and fixtures	1,750,436	207,558	1,957,994
Intangibles	1,194,821	268,609	1,463,430
Construction in progress	947,010	158,236	1,105,246
Less: accumulated depreciation and amortization	(82,128,320)	(21,340,369)	(103,468,689)
Total assets	114,625,432	35,185,719	149,811,151
LIABILITIES			
Accounts payable	956,862	928,384	1,885,246
Accrued payroll	795,049	78,639	873,688
Accrued liabilities - other	1,528,023	251,771	1,779,794
Accrued interest	174,194	-	174,194
Unearned revenue	4,948,180	-	4,948,180
Retainage payable	17,537	-	17,537
Customer deposits and contingent charges	1,869,754	246,414	2,116,168
Noncurrent liabilities:			
Due within one year:			
Compensated absences	486,796	18,399	505,195
Notes payable	138,867	-	138,867
Bonds payable	1,365,606	194,394	1,560,000
Due in more than one year:			
Compensated absences	1,547,964	218,958	1,766,922
Note payable	1,591,133	-	1,591,133
Bonds payable	14,022,970	2,972,506	16,995,476
Other postemployment benefits (OPEB)	957,934	131,611	1,089,545
Total liabilities	30,400,869	5,041,076	35,441,945
NET ASSETS			
Invested in capital assets, net of related debt	70,770,618	14,333,960	85,104,578
Unrestricted	13,453,945	15,810,683	29,264,628
Total net assets	\$ 84,224,563	\$ 30,144,643	\$ 114,369,206

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-2

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary Government:							
Governmental activities:							
Legislative	\$ 583,204	\$ -	\$ -	\$ -	\$ (583,204)	\$ -	\$ (583,204)
Administration	2,644,089	20,573	29,348	-	(2,594,168)	-	(2,594,168)
Town attorney	475,518	-	-	-	(475,518)	-	(475,518)
Parks and recreation	4,359,512	2,837,304	-	-	(1,522,208)	-	(1,522,208)
Finance	1,291,803	488,270	-	-	(803,533)	-	(803,533)
Community development	2,138,936	-	129,380	-	(2,009,556)	-	(2,009,556)
Police	8,834,312	583,820	707,317	-	(7,543,175)	-	(7,543,175)
Public works	11,861,291	421,503	806,055	2,570,040	(8,063,693)	-	(8,063,693)
Interest	938,843	-	-	-	(938,843)	-	(938,843)
Total governmental activities	33,127,508	4,351,470	1,672,100	2,570,040	(24,533,898)	-	(24,533,898)
Business-type activities:							
Water and sewer	7,173,978	5,815,824	391,965	50,512	-	(915,677)	(915,677)
Golf course	1,531,506	1,419,051	-	-	-	(112,455)	(112,455)
Chestnut Grove cemetery	686,962	639,107	-	-	-	(47,855)	(47,855)
Downtown parking	29,473	-	-	-	-	(29,473)	(29,473)
Total business-type activities	9,421,919	7,873,982	391,965	50,512	-	(1,105,460)	(1,105,460)
Total government	\$ 42,549,427	\$ 12,225,452	\$ 2,064,065	\$ 2,620,552	(24,533,898)	(1,105,460)	(25,639,358)
General Revenues:							
Taxes:							
General property					9,484,072	-	9,484,072
Business licenses					3,928,098	-	3,928,098
Transient occupancy					2,235,969	-	2,235,969
Local sales					1,601,032	-	1,601,032
Meals					1,991,460	-	1,991,460
Other local taxes					2,264,521	-	2,264,521
Intergovernmental, non-categorical aid					1,790,631	-	1,790,631
Use of money and property					899,551	547,645	1,447,196
Miscellaneous					201,030	559,314	760,344
Transfers					(217,583)	217,583	-
Total general revenues and transfers					24,178,781	1,324,542	25,503,323
Change in net assets					(355,117)	219,082	(136,035)
Net assets, July 1					84,579,680	29,925,561	114,505,241
Net assets, June 30					\$ 84,224,563	\$ 30,144,643	\$ 114,369,206

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

**Exhibit A-3
Page 1**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash, cash equivalents and temporary cash investments	\$ 11,319,475	\$ 6,480,249	\$ 1,705,678	\$ 19,505,402
Cash with fiscal agent	-	3,154,782	-	3,154,782
Receivables (net of allowance for doubtful accounts):				
Property taxes	5,031,487	-	-	5,031,487
Accounts and other services	654,547	8,463	-	663,010
Accrued interest	57,408	27,031	6,302	90,741
Due from other governments	746,029	107,894	-	853,923
Inventories	127,084	-	-	127,084
Prepaid costs	60,309	400	-	60,709
Advances to other funds	249,645	-	-	249,645
Total assets	\$ 18,245,984	\$ 9,778,819	\$ 1,711,980	\$ 29,736,783

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 2

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 578,317	\$ 287,858	\$ 90,687	\$ 956,862
Accrued payroll	795,049	-	-	795,049
Accrued liabilities - other	1,082,606	445,417	-	1,528,023
Retainage payable	-	17,537	-	17,537
Deferred revenue	5,196,506	-	-	5,196,506
Deposits	1,781,136	88,618	-	1,869,754
Advances from other funds	-	85,000	-	85,000
Total liabilities	9,433,614	924,430	90,687	10,448,731
Fund Balances:				
Nonspendable:				
Inventories	127,084	-	-	127,084
Prepaid costs	60,309	400	-	60,709
Loan to Capital Projects Fund	85,000	-	-	85,000
Loan to Cemetery Fund	164,645	-	-	164,645
Committed:				
Cemetery perpetual care	-	-	1,401,996	1,401,996
Revenue stabilization	200,000	-	-	200,000
Assigned:				
Operating materials, services and supplies	364,531	-	-	364,531
Capital equipment and vehicles	96,286	-	-	96,286
Subsequent years' expenditures for:				
General Fund	814,723	-	-	814,723
Capital Projects Fund	-	8,853,989	-	8,853,989
Other governmental funds	-	-	219,297	219,297
Unassigned:				
General Fund	6,899,792	-	-	6,899,792
Total fund balances	8,812,370	8,854,389	1,621,293	19,288,052
Total liabilities and fund balances	\$ 18,245,984	\$ 9,778,819	\$ 1,711,980	\$ 29,736,783

TOWN OF HERNDON, VIRGINIA

Exhibit A-4

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balances - Governmental Funds	\$	19,288,052
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Governmental capital assets	\$	166,862,732	
Less accumulated depreciation and amortization		(82,128,320)	
Net capital assets			84,734,412

Deferred revenue represents amounts that were not available to fund current expenditures, and, therefore, is not reported as revenue in the governmental funds.		248,326
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Long-term debt issuance costs are deferred and amortized in the Statement of Activities but the effect of issuance costs are recorded in the governmental funds in the current period.		239,237
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Bonds payable, including unamortized premiums and discounts		(15,388,576)	
Note payable		(1,730,000)	
Compensated absences		(2,034,760)	
Interest payable		(174,194)	
Other postemployment benefits (OPEB)		(957,934)	
			(20,285,464)

Net assets of governmental activities	\$	84,224,563
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See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 9,469,904	\$ -	\$ -	\$ 9,469,904
Other local taxes	12,021,080	-	-	12,021,080
Permits, privilege fees and regulatory licenses	307,471	-	-	307,471
Fines and forfeitures	586,607	-	-	586,607
Use of money and property	520,796	323,669	55,086	899,551
Charges for services	3,553,684	-	-	3,553,684
Miscellaneous	133,216	40,000	-	173,216
Intergovernmental	4,398,640	1,203,331	-	5,601,971
Total revenues	30,991,398	1,567,000	55,086	32,613,484
Expenditures:				
Current:				
Legislative	574,002	-	-	574,002
Administration	2,039,372	-	-	2,039,372
Town attorney	465,714	-	-	465,714
Parks and recreation	3,615,552	-	-	3,615,552
Finance	1,236,659	-	-	1,236,659
Community development	2,069,278	-	-	2,069,278
Police	8,829,067	-	-	8,829,067
Public works	8,534,908	-	-	8,534,908
Grants	52,544	-	-	52,544
Capital outlay	-	2,114,343	199,256	2,313,599
Debt service:				
Principal	1,458,640	-	-	1,458,640
Interest and fiscal charges	695,817	-	-	695,817
Total expenditures	29,571,553	2,114,343	199,256	31,885,152
Revenues over (under) expenditures	1,419,845	(547,343)	(144,170)	728,332

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 27,375	\$ -	\$ -	\$ 27,375
Issuance of debt	-	97,500	-	97,500
Issuance of refunding bonds	4,999,000	-	-	4,999,000
Payment to refunded bond escrow agent	(4,986,906)	-	-	(4,986,906)
Transfers in	-	578,500	87,503	666,003
Transfers out	(828,500)	-	(55,086)	(883,586)
Total other financing sources (uses), net	(789,031)	676,000	32,417	(80,614)
Net change in fund balances	630,814	128,657	(111,753)	647,718
Fund balances, July 1	8,181,556	8,725,732	1,733,046	18,640,334
Fund balances, June 30	\$ 8,812,370	\$ 8,854,389	\$ 1,621,293	\$ 19,288,052

TOWN OF HERNDON, VIRGINIA

Exhibit A-6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

		Governmental Funds
Net change in fund balances - total governmental funds	\$	647,718
Reconciliation of amounts reported for governmental activities in the Statement of Activities:		
<p>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 and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlays in the current period.</p>		
Expenditure for capital assets	\$ 1,325,046	
Less depreciation and amortization expense	<u>(3,459,764)</u>	
Excess of depreciation and amortization over capital outlay		(2,134,718)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to increase net assets:</p>		
Loss on disposal of capital assets	(227,979)	
Donated capital assets	<u>484,901</u>	
		256,922
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in deferred revenue		(135,786)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.</p>		
Debt issued or incurred:		
Issuance of refunding bonds	(4,999,000)	
General obligation debt	(97,500)	
Payment to refunded bonds escrow agent to refund bonds- principal	4,700,000	
Principal repayments:		
General obligation debt	<u>1,458,640</u>	
		1,062,140
<p>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.</p>		
Accrued interest	96,318	
Compensated absences	4,718	
Other postemployment benefits (OPEB)	(99,991)	
Capitalized financing costs	11,700	
Amortization of premium, discounts and financing costs	<u>(64,138)</u>	
		<u>(51,393)</u>
Change in net assets of governmental activities	\$	<u>(355,117)</u>

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
General property taxes	\$ 9,513,000	\$ 9,513,000	\$ 9,469,904	\$ (43,096)
Other local taxes	11,291,200	11,291,200	12,021,080	729,880
Permits, privilege fees and regulatory licenses	373,600	373,600	307,471	(66,129)
Fines and forfeitures	521,600	521,600	586,607	65,007
Use of money and property	784,320	784,320	520,796	(263,524)
Charges for services	3,415,120	3,415,120	3,553,684	138,564
Miscellaneous	28,350	28,350	133,216	104,866
Intergovernmental	4,392,540	4,392,540	4,398,640	6,100
Total revenues	30,319,730	30,319,730	30,991,398	671,668
Expenditures:				
Current:				
Legislative	578,260	578,260	574,002	(4,258)
Administration	2,122,480	2,230,389	2,039,372	(191,017)
Town attorney	573,810	637,595	465,714	(171,881)
Parks and recreation	3,779,780	3,800,048	3,615,552	(184,496)
Finance	1,218,390	1,246,300	1,236,659	(9,641)
Community development	2,056,430	2,264,169	2,069,278	(194,891)
Police	8,654,650	8,786,793	8,829,067	42,274
Public works	8,643,790	9,198,610	8,534,908	(663,702)
Grants	-	22,551	52,544	29,993
Debt Service:				
Principal	1,458,650	1,458,650	1,458,640	(10)
Interest and fiscal charges	690,990	690,990	695,817	4,827
Total expenditures	29,777,230	30,914,355	29,571,553	(1,342,802)
Revenues over (under) expenditures	542,500	(594,625)	1,419,845	2,014,470

TOWN OF HERNDON, VIRGINIA

Exhibit A-7
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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 25,000	\$ 25,000	\$ 27,375	\$ 2,375
Issuance of refunding bonds	-	-	4,999,000	4,999,000
Payment to refunded bond escrow agent	-	-	(4,986,906)	(4,986,906)
Transfers out	(828,500)	(828,500)	(828,500)	-
Total other financing uses, net	(803,500)	(803,500)	(789,031)	14,469
Net change in fund balance	(261,000)	(1,398,125)	630,814	2,028,939
Fund balance, July 1	261,000	1,398,125	8,181,556	6,783,431
Fund balance, June 30	\$ -	\$ -	\$ 8,812,370	\$ 8,812,370

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 1

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Major Funds			Nonmajor Fund	
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking Enterprise	
ASSETS					
Current Assets:					
Cash, cash equivalents and temporary cash investments	\$ 14,003,905	\$ 988,737	\$ 553,693	\$ 666,735	\$ 16,213,070
Receivables (net of allowance for doubtful accounts):					
Accounts and other services	1,314,234	5,060	855	12,714	1,332,863
Accrued interest	49,752	4,503	498	11,125	65,878
Inventories	22,806	21,321	-	-	44,127
Prepaid costs	-	-	5,531	1,000	6,531
Current notes receivable	-	-	-	32,532	32,532
Total current assets	15,390,697	1,019,621	560,577	724,106	17,695,001
Noncurrent Assets:					
Notes receivable (net of allowance for doubtful accounts)	-	-	-	89,603	89,603
Deferred bond costs, net of accumulated amortization	-	26,012	38,888	-	64,900
Capital assets:					
Land	200,000	1,621,574	718,500	878,264	3,418,338
Buildings	-	2,316,728	1,263,020	-	3,579,748
Improvements other than buildings	23,813,889	2,917,704	1,444,889	460,045	28,636,527
Machinery and equipment	1,631,444	861,031	79,738	-	2,572,213
Furniture and fixtures	194,920	5,918	6,720	-	207,558
Intangibles	268,609	-	-	-	268,609
Construction in progress	158,236	-	-	-	158,236
Less accumulated depreciation and amortization	(16,341,512)	(3,717,640)	(851,604)	(429,613)	(21,340,369)
Total capital assets (net of accumulated depreciation and amortization)	9,925,586	4,005,315	2,661,263	908,696	17,500,860
Total noncurrent assets	9,925,586	4,031,327	2,700,151	998,299	17,655,363
Total assets	25,316,283	5,050,948	3,260,728	1,722,405	35,350,364

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 2

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Major Funds			Nonmajor Fund	
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking Enterprise	
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 913,229	\$ 8,374	\$ 6,781	\$ -	\$ 928,384
Accrued payroll	32,619	33,509	12,511	-	78,639
Accrued liabilities - other	195,890	20,280	35,601	-	251,771
Compensated absences	10,100	5,990	2,309	-	18,399
Deposits	246,414	-	-	-	246,414
Advances from other funds	-	-	164,645	-	164,645
Current general obligation bonds payable	-	85,670	108,724	-	194,394
Total current liabilities	1,398,252	153,823	330,571	-	1,882,646
Noncurrent Liabilities:					
Compensated absences	72,407	112,704	33,847	-	218,958
Other postemployment benefits	71,637	40,935	19,039	-	131,611
Long-term general obligation bonds payable, net	-	1,144,486	1,828,020	-	2,972,506
Total noncurrent liabilities	144,044	1,298,125	1,880,906	-	3,323,075
Total liabilities	1,542,296	1,451,948	2,211,477	-	5,205,721
Net Assets:					
Invested in capital assets, net of related debt	9,925,586	2,775,159	724,519	908,696	14,333,960
Unrestricted	13,848,401	823,841	324,732	813,709	15,810,683
Total net assets	\$ 23,773,987	\$ 3,599,000	\$ 1,049,251	\$ 1,722,405	\$ 30,144,643

TOWN OF HERNDON, VIRGINIA

Exhibit A-9
Page 1

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Major Funds			Nonmajor Fund	
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking Enterprise	
Operating revenues:					
Sale of water	\$ 2,718,877	\$ -	\$ -	\$ -	\$ 2,718,877
Sewer service charges	3,028,487	-	-	-	3,028,487
Late payment charges	55,853	-	-	-	55,853
Sale of commodities	12,607	-	-	-	12,607
Rents and leases	417,122	41,793	-	-	458,915
Greens fees	-	1,003,333	-	-	1,003,333
Golf cart revenue	-	276,823	-	-	276,823
Golf pro shop sales	-	67,781	-	-	67,781
Driving range fees	-	71,114	-	-	71,114
Cemetery sites	-	-	375,026	-	375,026
Interment services	-	-	155,640	-	155,640
Merchandise sales	-	-	108,441	-	108,441
Miscellaneous	17,617	21,492	34,387	26,903	100,399
Total operating revenues	6,250,563	1,482,336	673,494	26,903	8,433,296
Operating expenses:					
Finance	225,287	-	-	-	225,287
Water main maintenance	2,080,207	-	-	-	2,080,207
Sewer service charge	3,641,841	-	-	-	3,641,841
Contractual services	444,350	-	-	-	444,350
Golf course operations	-	640,066	-	-	640,066
Golf course club house	-	556,941	-	-	556,941
Cemetery operations	-	-	453,578	-	453,578
Downtown parking	-	-	-	24,721	24,721
Nondepartmental:					
Depreciation and amortization	729,031	238,900	116,561	4,752	1,089,244
Miscellaneous	53,262	55,285	21,746	-	130,293
Total operating expenses	7,173,978	1,491,192	591,885	29,473	9,286,528
Operating income (loss)	(923,415)	(8,856)	81,609	(2,570)	(853,232)

See Notes to Financial Statements.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9
Page 2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Major Funds			Nonmajor Fund	
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking Enterprise	
Nonoperating revenues (expenses):					
Investment earnings	\$ 508,028	\$ 13,959	\$ 12,655	\$ 13,003	\$ 547,645
Availability fees	391,965	-	-	-	391,965
Interest expense	-	(40,314)	(95,077)	-	(135,391)
Total nonoperating revenues (expenses), net	899,993	(26,355)	(82,422)	13,003	804,219
Income (loss) before capital contributions and transfers	(23,422)	(35,211)	(813)	10,433	(49,013)
Capital contributions	50,512	-	-	-	50,512
Transfers in	-	-	55,086	200,000	255,086
Transfers out	-	-	(37,503)	-	(37,503)
Change in net assets	27,090	(35,211)	16,770	210,433	219,082
Total net assets, July 1	23,746,897	3,634,211	1,032,481	1,511,972	29,925,561
Total net assets, June 30	\$ 23,773,987	\$ 3,599,000	\$ 1,049,251	\$ 1,722,405	\$ 30,144,643

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
Page 1

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Major Funds			Nonmajor Fund	
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking Enterprise	
Cash Flows From Operating Activities:					
Receipts from customers	\$ 6,131,464	\$ 1,479,493	\$ 673,494	\$ 15,046	\$ 8,299,497
Payments to suppliers for goods and services	(5,620,721)	(598,335)	(172,310)	(24,721)	(6,416,087)
Payments to employees for services	(794,710)	(758,491)	(312,839)	-	(1,866,040)
Net cash provided by (used in) operating activities	(283,967)	122,667	188,345	(9,675)	17,370
Cash Flows From Noncapital Financing Activities:					
Transfers in from other funds	-	-	55,086	200,000	255,086
Transfers out to other funds	-	-	(37,503)	-	(37,503)
Repayment of advances from other funds	-	-	(12,665)	-	(12,665)
Interest paid on advances from other funds	-	-	(7,536)	-	(7,536)
Net cash provided by (used in) noncapital financing activities	-	-	(2,618)	200,000	197,382
Cash Flows From Capital and Related Financing Activities:					
Water and sewer tap fees/contributions from local sources	391,965	-	-	-	391,965
Acquisition and construction of capital assets	(127,054)	(13,602)	-	-	(140,656)
Principal paid on bonds	-	(83,044)	(103,316)	-	(186,360)
Interest paid on bonds	-	(46,623)	(89,108)	-	(135,731)
Net cash provided by (used in) capital and related financing activities	264,911	(143,269)	(192,424)	-	(70,782)
Cash Flows From Investing Activities:					
Principal received on note receivable	-	-	-	33,887	33,887
Interest received on note receivable	-	-	-	14,050	14,050
Interest received on investment securities	508,410	13,953	15,223	-	537,586
Net cash provided by investing activities	508,410	13,953	15,223	47,937	585,523
Net increase (decrease) in cash and cash equivalents	489,354	(6,649)	8,526	238,262	729,493
Cash and Cash Equivalents:					
Beginning	13,514,551	995,386	545,167	428,473	15,483,577
Ending	\$ 14,003,905	\$ 988,737	\$ 553,693	\$ 666,735	\$ 16,213,070

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds				Totals
	Major Funds			Nonmajor Fund	
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking Enterprise	
Cash Flows From Operating Activities:					
Operating income (loss)	\$ (923,415)	\$ (8,856)	\$ 81,609	\$ (2,570)	\$ (853,232)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	729,031	238,900	116,561	4,752	1,089,244
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(130,030)	(2,843)	-	(11,857)	(144,730)
Inventories	16,269	4,367	-	-	20,636
Prepaid costs and other assets	-	-	(243)	-	(243)
Increase (decrease) in:					
Accounts payable, accrued liabilities and compensated absences	13,247	(108,901)	(9,582)	-	(105,236)
Deposits	10,931	-	-	-	10,931
Net cash provided by (used in) operating activities	\$ (283,967)	\$ 122,667	\$ 188,345	\$ (9,675)	\$ 17,370
Schedule of Noncash Capital and Related Financing Activities:					
Developer donated assets	\$ 50,512	\$ -	\$ -	\$ -	\$ 50,512

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 June 30, 2012
 (With Comparative Amounts for 2011)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2012	2011
ASSETS		
Mutual funds	\$ 2,354,871	\$ 2,230,258
Contributions receivable	-	5,018
Total assets	2,354,871	2,235,276
NET ASSETS		
Held in trust for pension benefits	\$ 2,354,871	\$ 2,235,276

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 Year Ended June 30, 2012
 (With Comparative Amounts for 2011)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2012	2011
Additions:		
Employer contributions	\$ 131,117	\$ 129,279
Total contributions	131,117	129,279
Investment income:		
Net increase in the fair market value of investments	43,890	368,030
Total additions, net	175,007	497,309
Deductions:		
Benefit payments	55,412	121,669
Change in net assets	119,595	375,640
Net assets, July 1	2,235,276	1,859,636
Net assets, June 30	\$ 2,354,871	\$ 2,235,276

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of the Town of Herndon, Virginia (the town) conform with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies used by the town.

The Town of Herndon, located in the County of Fairfax, Virginia, was incorporated in 1879 under the provisions of the constitution and general statutes of the Commonwealth of Virginia.

The town is governed under the Town Manager-Council form of government. The town engages in a comprehensive range of municipal services, including general government administration; public safety and administration of justice; refuse collection; street and sidewalk maintenance; street lighting; zoning enforcement; education, health, welfare, and human service programs; planning, community development and recreation; and cultural and historic activities. Other municipal services including public education; technical and special education services; health and social services; mental health assistance; fire and ambulance services; judicial services; correctional facilities; and additional recreation services and facilities are provided by the County of Fairfax, Virginia.

As required by GAAP, these financial statements present the town's financial position. The town does not have any component units, entities for which the town is considered to be financially accountable or blended component units, legally separate entities which are in substance part of the town's operations.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *government* and *business-type activities* of the town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the town and for each function of the town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation (Continued)

Fund Financial Statements: The fund financial statements provide information about the town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, of which each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

Operating expenses include cost of services, administrative expenses and depreciation and amortization on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

The town reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or the Information Systems Improvement Fund.

The town reports the following major enterprise funds:

Water and Sewer Fund

The Water and Sewer Fund accounts for services to the general public which are financed primarily by charges to users of those services.

Golf Course Fund

The Golf Course Fund accounts for the operation and maintenance of the golf course.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation (Continued)

Chestnut Grove Cemetery Fund

The Chestnut Grove Cemetery Fund accounts for operations of the cemetery.

Additionally, the town reports the following fund types:

Police Supplemental Retirement Pension Trust Fund

The purpose of this fund is to provide retirement benefits in addition to the benefits provided by the Virginia Retirement System and Social Security. The town has contracted with various financial institutions and insurance carriers to provide fiscal agent services including the accounting, investment, and disbursement services related to this fund.

Measurement Focus, Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The town considers all revenues reported in the governmental funds to be available if the revenues are collected within 75 days after year-end, except property taxes which are recognized as revenue if they have been collected within 45 days after year-end. All taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

Measurement Focus, Basis of Accounting (Continued)

All governmental and business-type activities and enterprise funds of the town follow Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The town has elected not to follow private-sector guidance.

C. Budgetary Data

The *Code of Virginia* makes a clear distinction between budgets and appropriations. Budgets are for informational and fiscal planning purposes, whereas appropriations are authorizations to incur expenditures.

Prior to April 1, the town Manager submits to the town Council a proposed operating budget for the fiscal year commencing the following July 1. Annual budgets for the General Fund, and the enterprise funds are adopted at the department level. Capital projects are budgeted on a project basis. The operating and capital budgets include proposed expenditures and the means of financing them. A brief synopsis of the proposed budget is published at least once in a newspaper with general circulation within the town. Additionally, notice is given of one or more public hearings at least ten days prior to the public hearing. The public hearing provides any citizen the opportunity to comment on the budget.

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. This resolution appropriates all budgeted amounts. The Appropriations Resolution places legal restrictions on expenditures for each department or category level. The town Manager is authorized to transfer budgeted amounts of the General Fund, Water and Sewer Fund, Golf Course Fund and Downtown Parking Enterprise Funds within a department or between departments. The total amount of each transfer shall not exceed \$30,000 and multiple transfers for the same account cannot exceed a total of \$30,000. Transfers exceeding \$30,000 must be authorized by the town Council. Although transfers within the budget less than \$30,000 may be made without approval, all increases or decreases to the approved budget must be approved by the town Council before being made. During the year, the town Council approves additional appropriations, as needed, in the form of Budget Amendments. During the year ended June 30, 2012, budget revisions to governmental funds were made which resulted in a \$1,137,125 increase in budgeted expenditures.

All budgets are adopted on a basis consistent with GAAP. Appropriations lapse June 30 unless specifically encumbered, committed or assigned. At year-end, the town Council meets to encumber these appropriations for the next fiscal year.

All budget data presented in the accompanying financial statements is the revised budget as of June 30 and includes the budget revisions disclosed previously. Unfavorable variances reported herein should not be interpreted to represent violations of laws as the legal level of fiscal control is based on total appropriated expenditures by fund.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Equity

(1) Deposits and Investments

Cash resources of the governmental and proprietary funds are combined to form a pool of deposits and investments to maximize interest earnings potential. The pool consists primarily of certificates of deposit, repurchase agreements, government securities and a local government investment pool. The government securities are stated at fair value based on quoted market prices and the investment in the local government investment pool (a 2a7-like pool) is reported at the pool's share price.

For purposes of the statement of cash flows, the town's enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(2) Receivables and Payables

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

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

Water and sewer receivables are shown net of an allowance for uncollectibles and consist of billed and unbilled utility receivables. Unbilled receivables are an estimate of utility services provided but not billed by year end.

Allowances for uncollectible accounts receivable (real estate taxes and utility billings) are calculated using historical collection data, specific account analysis, and management's judgment.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Equity (Continued)

(2) Receivables and Payables (Continued)

The town levies real estate taxes as of January 1 on all real property in the town on a calendar year basis at a rate enacted by town Council. The levies are based on the assessed value of property as determined by the Director of Real Estate Assessments of Fairfax County. All property is assessed at 100 percent of appraised value and reassessed each year as of January 1. Real estate taxes are collected in equal installments due July 28 and December 5. Lien dates are 190 days after the due date. The tax rate during 2011 per \$100 of assessed value was \$.265. No discounts are allowed. A late penalty of ten percent is charged after July 28 and December 5. Interest of ten percent on tax and penalty is charged from August 1 for the first half real estate taxes and from January 1 for second half real estate taxes.

The town did not assess personal property taxes during fiscal year 2012.

The portion of taxes receivable that are not collected within 45 days after June 30 are shown as deferred revenue.

(3) Inventories

Inventories in the proprietary funds are recorded at the lower of cost (first-in, first-out) or market. These inventories consist primarily of parts held for consumption.

Inventory in the General Fund consists of expendable supplies held for consumption and is recorded at cost (determined on a first-in, first-out basis). The cost is recorded as an expenditure when consumed.

(4) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

(5) Restricted Cash

In accordance with the agreements resulting in the issuance of debt, the Capital Projects Fund has a portion of its cash balance restricted and shown as "Cash with fiscal agent" on the Governmental Funds' Balance Sheet and the Statement of Net Assets. This restriction on cash balances is due to the intended use, as prescribed in the applicable bond covenants.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Equity (Continued)

(6) Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during construction on governmental activities' capital assets is not capitalized. 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. Capitalized interest is amortized using the straight-line method over the useful life of the asset.

Capital assets and infrastructure are defined by the town as assets with an initial, individual cost of more than \$5,000 and \$20,000, respectively, and an estimated useful life in excess of two years.

The town has included all infrastructure assets of the town, including assets acquired before June 30, 1980.

Maintenance, repairs, and minor renewals are charged to operations when incurred. Expenses which materially increase values, change capacities, or extend useful lives are capitalized.

The town's intangible assets consist of land easements and software, which were previously recorded and classified as machinery and equipment. Land easements have indefinite useful lives and thus are not subject to amortization.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	20 to 50 years
Buildings	10 to 50 years
Improvements other than buildings	5 to 50 years
Machinery and equipment	2 to 20 years
Furniture and fixtures	10 to 20 years
Intangibles	5 years

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Equity (Continued)

(7) Compensated Absences

Vacation can be accumulated up to 37.5 days for all employees except department heads who can accumulate 40 days. Unused accumulated vacation is paid upon termination, death or retirement. Employees may utilize their sick leave benefit to the extent sickness causes employees to be absent. Upon retirement under the Virginia Retirement System, employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$10,000. Upon termination of employment except for dismissals, non-probationary full-time employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$2,500. A prorated amount shall be paid to non-probationary part-time employees. The vested amount is accrued in compensated absences.

Compensated absences are accrued when incurred in proprietary funds and reported as a fund liability. The General Fund is responsible for paying the liability for compensated absences for General Government employees and has been used in prior years to liquidate the Governmental Funds' liability.

Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

All amounts accrued for compensated absences are recorded on the entity-wide statements.

(8) Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums, discounts, and deferred losses on refundings, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium, discount, and deferred losses on refundings. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Equity (Continued)

(9) Fund Equity

In the fund financial statements, governmental funds report classifications of fund balance as follows:

Nonspendable fund balance – amounts that are not in a spendable form or are required to be maintained intact (such as prepaid items, inventory and advances between funds).

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, creditors, or laws and regulations of other governments), or by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the town Council. To be reported as committed, amounts cannot be used for any other purpose unless the town Council takes the action to remove or change the constraint. The action must be in the form of a budget amendment ordinance passed by the town Council after a public meeting.

Assigned – amounts constrained by the town's intent but are neither restricted nor committed. Encumbrances outstanding at year-end are designated by management, as allowed by the town's financial policies. Re-appropriations are then formally adopted by the town Council in the following fiscal year through a budget amendment. Amounts designated for subsequent years' expenditures are adopted by a resolution of the town Council which is retroactive to fiscal year-end. The action normally takes place during the month of July which is after fiscal year-end. These amounts are also formally re-appropriated by the town Council in the following fiscal year through a budget amendment.

Unassigned fund balance – residual balance of the General Fund that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The town will consider the use of restricted, committed, or assigned funds prior to the use of unassigned fund balance.

(10) Encumbrances

Encumbrance accounting, the recording of purchase orders, contracts, and other commitments for the expenditures of monies to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all governmental funds. Encumbrances outstanding at year-end are reported as restricted, committed, or assigned fund balance, depending on the governmental fund, since they do not constitute expenditures or liabilities. Encumbrances are normally re-appropriated each year by town Council resolution. The General Fund had encumbrances of \$460,817 at year end.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

The town maintains a cash and investment pool that is available for use by all funds, except the Pension Trust Fund. Investment income is allocated to certain designated funds based on the percentage of the fund's cash and investments at month-end to the total pool. The Capital Projects Fund and the Water and Sewer Fund have specific designated investments as well as having equity in pooled cash and investments.

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

Custodial Credit Risk: This is the risk that in the event of a bank failure, the town's deposits may not be returned to it. The town's investment policy requires all deposits to be insured under FDIC or comply with the Virginia Security for Public Deposits Act. At year end, none of the town's deposits were exposed to custodial credit risk.

Investments: The State Treasurer's Local Government Investment Pool (LGIP) is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Sec 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share.

Investment Policy:

State statutes and the town's policy authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, "prime-quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, open-end investment funds (mutual funds), certificates of deposit, and the LGIP. The town has investments in the LGIP, and the maturity of the LGIP is less than one year and is rated AAAM by Standard & Poor's.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investment Policy: (Continued)

The town's investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

U. S. Treasury Obligations	100% maximum
U. S. Government Agency Securities and Instruments of Government Sponsored Corporations	100% maximum
Open-End Investment Funds (Mutual Funds)	100% maximum
Bankers' Acceptances	50% maximum
Repurchase Agreements	25% maximum
Certificate of Deposits – Virginia Qualified Commercial Banks, Savings and Loan Associations	75% maximum
Commercial Paper	35% maximum
Local Government Investment Pool	100% maximum

Further, of the total portfolio, no more than 25% can be invested with any one institution for Bankers' Acceptances, 10% with any one institution for Repurchase Agreements, 33% with any one institution for Certificates of Deposit, and no more than 5% with any one institution for Commercial Paper.

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's "Aa" by Moody's Investors Service.

As of June 30, 2012, 23% of the portfolio was invested in "AA+" U. S. Agency Securities, 39% was invested in "AAA" U. S. Agency Securities, 4% was invested in "AA-" U. S. Agency Securities, 4% was invested in "A+" U. S. Agency Securities, 20% was invested in "AAAm" rated Money Market Funds, and 10% was invested in an unrated Money Market Fund. All credit ratings presented in this paragraph are Standard & Poor's ratings.

Concentration of Credit Risk:

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2012, the portion of the town's portfolio, excluding the LGIP, U. S. Government guaranteed obligations and money market mutual funds, that exceed 5% of the total portfolio are as follows:

Federal National Mortgage Association	34%
Fixed Income	15%
Municipal Bonds	19%
Certificates of Deposit	7%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Interest Rate Risk:

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting exposure to fair value losses arising from rising interest rates, the town's policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except for investments of capital projects, long-term reserve and other escrow funds that will be timed to meet contractors' payments, debt service or other anticipated financial obligations. In such cases, the town may invest reserve and escrow funds in securities maturing up to ten years from the date of purchase.

	Fair Value	Investment Maturities (in years)		
		Less Than 1 Year	1 – 5 Years	5 – 10 Years
U. S. Agencies	\$ 24,411,066	\$ 1,039,632	\$ 20,198,034	\$ 3,173,400

Interest rate risk does not apply to the local government investment pool since it is a 2a7-like pool.

Note 3. Receivables

Receivables at June 30, 2012 for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Capital Projects Fund	Water and Sewer Fund	Golf Course Fund	Chestnut Grove Cemetery Fund	Nonmajor Proprietary Fund	Totals
Property tax	\$ 5,041,456	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,041,456
Meals tax	189,002	-	-	-	-	-	189,002
Transient occupancy tax	210,915	-	-	-	-	-	210,915
Fines and forfeitures	92,547	-	-	-	-	-	92,547
Trade and other accounts	162,083	8,463	1,528,990	5,060	1,530	12,714	1,718,840
Gross receivables	5,696,003	8,463	1,528,990	5,060	1,530	12,714	7,252,760
Less allowance for uncollectible accounts	(9,969)	-	(214,756)	-	(675)	-	(225,400)
Net receivables	\$ 5,686,034	\$ 8,463	\$ 1,314,234	\$ 5,060	\$ 855	\$ 12,714	\$ 7,027,360

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 3. Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the General Fund were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 60,018	\$ -
Advance billing of 2012-2013 taxes	-	4,948,180
Intergovernmental	36,539	-
Other	151,769	-
	\$ 248,326	\$ 4,948,180

Note 4. Due From Other Governments

Amounts due from other governments include the following:

General Fund:	
Federal government	\$ 13,272
Commonwealth of Virginia	593,159
Other Local:	
County of Fairfax	72,735
Northern Virginia Cigarette Tax Board	66,863
	139,598
Total General Fund	746,029
Capital Projects Fund:	
Commonwealth of Virginia	57,894
County of Fairfax	50,000
Total Capital Projects Fund	107,894
Total due from other governments	\$ 853,923

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 5. Notes Receivable

Notes receivable as of June 30, 2012 consist of the following:

	Downtown Parking Enterprise Fund
3.875% note, due in annual installments of \$1,851, plus interest through June 2013	\$ 1,851
5.36% note, due in annual installments of \$1,851, plus interest through February 2015	496
4.715% note, due in annual installments of \$2,036, plus interest through March 2017	10,182
4.27% note, due in annual installments of \$16,291, plus interest through October 2017	97,749
4.515% note, due in annual installments of \$11,858, plus interest through October 2023	142,290
	252,568
Less current maturities	(32,532)
Less allowance for uncollectible accounts	(130,433)
Long-term portion, net	\$ 89,603

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated or amortized:				
Land	\$ 25,662,450	\$ -	\$ 162,242	\$ 25,824,692
Easements	3,000	-	498	3,498
Construction in progress	619,946	861,579	(534,515)	947,010
Total capital assets, not being depreciated or amortized	26,285,396	861,579	(371,775)	26,775,200
Capital assets, being depreciated and amortized:				
Infrastructure	76,122,139	484,901	102,958	76,709,998
Buildings	40,457,186	11,445	(5,950)	40,462,681
Improvements other than buildings	10,287,318	-	(114,641)	10,172,677
Machinery and equipment	9,700,420	406,167	(309,668)	9,796,919
Intangibles	1,159,306	35,515	-	1,194,821
Leasehold improvements	145,823	-	(145,823)	-
Furniture and fixtures	1,740,096	10,340	-	1,750,436
Total capital assets being depreciated and amortized	139,612,288	948,368	(473,124)	140,087,532
Less accumulated depreciation and amortization for:				
Infrastructure	53,213,159	1,505,110	-	54,718,269
Buildings	11,359,338	1,047,065	(2,856)	12,403,547
Improvements other than buildings	5,913,394	352,514	(190,037)	6,075,871
Machinery and equipment	6,887,544	399,211	(278,204)	7,008,551
Intangibles	975,466	75,838	-	1,051,304
Leasehold improvements	145,823	-	(145,823)	-
Furniture and fixtures	790,752	80,026	-	870,778
Total accumulated depreciation and amortization	79,285,476	3,459,764	(616,920)	82,128,320
Total capital assets being depreciated and amortized, net	60,326,812	(2,511,396)	143,796	57,959,212
Governmental activities capital assets, net	\$ 86,612,208	\$ (1,649,817)	\$ (227,979)	\$ 84,734,412

Depreciation and amortization was charged to programs/functions as follows:

Governmental activities:	
Legislative	\$ 440
Administration	271,720
Parks and Recreation	702,908
Finance	40,371
Community Development	40,274
Police	335,726
Public Works	2,068,325
Total depreciation and amortization expense – governmental activities	\$ 3,459,764

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated or amortized:				
Land	\$ 3,418,338	\$ -	\$ -	\$ 3,418,338
Construction in progress	421,281	140,656	(403,701)	158,236
Total capital assets, not being depreciated or amortized	3,839,619	140,656	(403,701)	3,576,574
Capital assets, being depreciated and amortized:				
Buildings	3,579,748	-	-	3,579,748
Improvements other than buildings	28,182,314	50,512	403,701	28,636,527
Machinery and equipment	2,577,708	-	(5,495)	2,572,213
Furniture and fixtures	207,558	-	-	207,558
Intangibles	268,609	-	-	268,609
Total capital assets being depreciated and amortized	34,815,937	50,512	398,206	35,264,655
Less accumulated depreciation and amortization:				
Buildings	1,275,498	120,727	-	1,396,225
Improvements other than buildings	16,493,300	840,852	-	17,334,152
Machinery and equipment	2,115,798	99,307	(5,495)	2,209,610
Furniture and fixtures	204,561	336	-	204,897
Intangibles	172,911	22,574	-	195,485
Total accumulated depreciation and amortization	20,262,068	1,083,796	(5,495)	21,340,369
Total capital assets being depreciated and amortized, net	14,553,869	(1,033,284)	403,701	13,924,286
Business-type activities capital assets, net	\$ 18,393,488	\$ (892,628)	\$ -	\$ 17,500,860
Business-type activities:				
Water and Sewer			\$ 729,031	
Golf Course			236,532	
Chestnut Grove Cemetery			113,481	
Downtown Parking Enterprise			4,752	
Total depreciation and amortization expense - business-type activities			\$ 1,083,796	

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations

The following is a summary of long-term liability activity for the year ended June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds and notes payable:					
General obligation bonds	\$ 16,259,391	\$ 4,999,000	\$ 6,023,640	\$ 15,234,751	\$ 1,365,606
Note payable	1,767,500	97,500	135,000	1,730,000	138,867
Total	18,026,891	5,096,500	6,158,640	16,964,751	1,504,473
Compensated absences	2,039,478	1,997,416	2,002,134	2,034,760	486,796
Governmental activities long-term liabilities	20,066,369	7,093,916	8,160,774	18,999,511	<u>\$ 1,991,269</u>
Plus deferred amount for bond premiums	186,827	-	14,868	171,959	
Less deferred amount for bond discounts	(63,727)	-	(45,593)	(18,134)	
	<u>\$ 20,189,469</u>	<u>\$ 7,093,916</u>	<u>\$ 8,130,049</u>	<u>\$ 19,153,336</u>	

Annual requirements to amortize long-term bonded debt are as follows:

Year Ending June 30,	General Long-Term Debt			
	General Obligation Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2013	\$ 1,365,606	\$ 463,487	\$ 138,867	\$ 36,496
2014	1,401,721	452,206	138,981	28,996
2015	920,509	403,382	139,098	26,530
2016	1,014,123	366,134	139,219	24,060
2017	1,057,517	335,125	139,344	21,587
2018-2022	5,624,521	1,147,504	698,718	70,700
2023-2027	3,384,754	338,476	307,432	14,320
2028-2032	466,000	34,016	28,341	2,116
	<u>\$ 15,234,751</u>	<u>\$ 3,540,330</u>	<u>\$ 1,730,000</u>	<u>\$ 224,805</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

General Obligation Bonds

Refunding bonds issued February 15, 2002, interest at 4.00% payable semi-annually, annual maturity of \$515,000 through August 2013	\$ 1,030,000
Taxable public improvement bonds issued December 1, 2003, interest at 4.77% to 5.02% payable semi-annually, annual maturity from \$385,000 to \$420,000 through August 2014	1,205,000
Tax-exempt public improvement bonds issued December 1, 2005, interest at 4.0% to 4.5% payable semi-annually, annual maturity from \$205,000 to \$350,000 through August 2025	3,785,000
Tax-exempt public improvement bonds issued February 8, 2007, interest at 3.75% to 5.25%, payable semi-annually, annual maturity from \$19,912 to \$37,611 through February 2027	411,505
Tax-exempt Build America and Recovery Zone bonds issued March 1, 2010, interest at 2.00% to 6.07% payable semi-annually, annual maturity \$91,300 to \$154,750 through February 2030	2,204,850
Refunding bonds issued December 7, 2010, interest at 3% to 5.25%, payable semi-annually, annual maturity from \$255,000 to \$350,000 through February 2021	1,599,396
Refunding bonds issued June 29, 2012, interest at 2.15% payable semi-annually, annual maturity beginning in fiscal year 2016 from \$492,500 to \$613,000 through August 2023	<u>4,999,000</u>
Total general obligation bonds	<u>\$ 15,234,751</u>

Note Payable:

\$1,765,000 VML/VACO Finance Program note payable, payable annually, plus interest, annual maturity from \$135,000 to \$140,000 through July 2024. Interest payments at a variable rate beginning in fiscal year 2012	\$ 1,630,000
\$100,000 VRA loan note payable, interest at 2.9%, payable semi-annually, plus interest beginning in fiscal year 2013, annual maturity from \$1,919 to \$3,335 through September 2031	<u>100,000</u>
	<u>\$ 1,730,000</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

In June 2001 and February 2007, public improvement bonds were issued. In March 2010, Build America and Recovery Zone bonds were issued. Additionally, in December 2010, General Obligation Refunding Bonds were issued. This series refunded the 2001 General Obligation Public Improvement bonds. The proceeds of each of these issuances have been used to finance governmental and business-type activities (golf course and cemetery). This debt is being accounted for in the respective fund that utilized the debt proceeds.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities:					
Serial bonds	\$ 3,230,609	\$ -	\$ 186,360	\$ 3,044,249	\$ 194,394
Compensated absences	230,911	136,185	129,739	237,357	18,399
Plus deferred amount for bond premiums	133,554	-	10,903	122,651	-
Business-type activities long-term liabilities	<u>\$ 3,595,074</u>	<u>\$ 136,185</u>	<u>\$ 327,002</u>	<u>\$ 3,404,257</u>	<u>\$ 212,793</u>

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

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2013	\$ 194,394	\$ 129,646
2014	203,279	123,108
2015	209,491	115,483
2016	218,377	105,831
2017	228,483	97,278
2018-2022	1,140,479	333,227
2023-2027	740,746	126,725
2028-2030	109,000	6,964
	<u>\$ 3,044,249</u>	<u>\$ 1,038,262</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Obligations (Continued)

	Golf Course Fund Long-Term Debt	Cemetery Fund Long-Term Debt
Serial bonds:		
Public improvement bonds, issued February 8, 2007, interest at 3.75% to 5.25% payable semi-annually, annual maturity from \$70,089 to \$132,389 through February 2027	\$ -	\$ 1,448,495
Build America and Recovery Zone bonds, issued March 1, 2010, interest at 2.00% to 6.07% payable semi-annually, annual maturity from \$18,700 to \$45,250 through February 2030	465,150	-
General Obligation Refunding Bond, issued December 7, 2010, to refund the outstanding Public Improvement Bonds issued in 2001; interest at 3.00% to 5.25%, payable semi-annually, annual maturity from \$38,636 to \$91,919 through February 2021	716,970	413,634
	\$ 1,182,120	\$ 1,862,129

Advanced Refunding

The town issued \$4,999,000 of general obligation bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$4,700,000 of general obligation bonds and \$286,906 of interest. As a result the refunded bonds were considered to be defeased and the liability was removed from the governmental activities column of the Statement of Net Assets. The reacquisition price and the net carrying amount of the old debt were approximately equal and, therefore, a deferred gain or loss was considered insignificant for inclusion. This advanced refunding was undertaken to reduce total debt service payments over the next 12 years by \$492,610 and resulted in an economic gain of \$458,132. At year end, \$4,986,906 was held in escrow.

The town's available legal debt margin mandated by the Commonwealth of Virginia is \$345,568,950, which is computed based upon 10% of the assessed value of real estate subject to taxation less applicable bonded debt.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Retirement and Pension Plans

The town employees are covered under various retirement plans as follows:

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)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Retirement and Pension Plans (Continued)

A. Plan Description (Continued)

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

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

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/pdf/publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, VA, 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 compensation toward their retirement. All or part of the 5% member contribution may be assumed by the town. In addition, the town is required to contribute the remaining amounts necessary to fund their 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 2012 was 11.93% of annual covered payroll.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Retirement and Pension Plans (Continued)

C. Annual Pension Cost (APC)

For fiscal year 2012, the town's annual pension cost of \$1,782,862 was equal to the town's required and actual contributions.

Three-year trend information for the town is as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 1,812,947	100%	\$ -
June 30, 2011	1,753,052	100%	-
June 30, 2012	1,782,862	100%	-

The fiscal year 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.5%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the unfunded actuarial accrued liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the Plan was 83% funded. The actuarial accrued liability for benefits was \$57,592,615, and the actuarial value of assets was \$47,702,288, resulting in an UAAL of \$9,890,327. The covered payroll (annual payroll of active employees covered by the Plan) was \$14,576,815, and ratio of the UAAL to the covered payroll was 68%.

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

For the June 30, 2011 actuarial valuation, there was a change in the assumed investment rate of return, which was reduced from 7.5% to 7.0%. This change will have affected the amounts reported in the Schedule of Funding Progress.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Retirement and Pension Plans (Continued)

Police Retirement Plan:

Plan Description

The Town of Herndon Police Supplemental Retirement Plan (Plan) is a defined contribution plan established by the town to provide retirement benefits, supplemental to VRS, for town police officers. The Plan is administered by the town. The town contributes an amount equal to three percent of the officer's wages; the officers make no contribution. The Plan does not issue a stand-alone financial report.

The town's police officers are enrolled in the Law Enforcement Officers retirement program within the Virginia Retirement System. The police officers are provided benefits equivalent to those provided for State police officers as set out in Section 51.1-138 of the *Code of Virginia*.

The town's payroll for employees covered by the Plan for the year ended June 30, 2012 was approximately \$5,453,383, which was 33% of the total town payroll of \$16,701,366. There were 76 participants in the Plan at June 30, 2012. The Plan has eight distribution options available to the officers upon retirement, separation from service, death, disability or termination of the Plan. Town contributions recorded as pension expenditure totaled \$131,117 for the fiscal year ended June 30, 2012. Data concerning the value of vested and nonvested benefits as of June 30, 2012 is as follows:

Vested benefits	\$	2,277,691
Nonvested benefits		77,180
		\$ 2,354,871

Vesting

Contributions by the town will vest to the benefit of the officer for which they are made according to the following schedule:

Years of Service as Herndon Police Officer	Vested Percentage
Fewer than 3 years	None
3 years but fewer than 4	20
4 years but fewer than 5	40
5 years but fewer than 6	60
6 years but fewer than 7	80
7 years or more	100

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 8. Retirement and Pension Plans (Continued)

Significant Accounting Policies

Basis of Accounting: The Plan financial statements are prepared using the accrual basis of accounting.

Reporting: The Plan is accounted for as a pension trust fund of the town.

Investment Valuation and Income Recognition: Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted market price of the mutual fund, which represents the net asset value of the shares held by the Plan.

Payment of Benefits: Benefits are recorded when paid.

In addition, State statutes authorize the town to purchase other investments for pension funds that meet the standard of judgment and care set forth in the *Code of Virginia*. These additional investments may include obligations of other states, political subdivisions thereof, or mutual funds.

Concentrations

At June 30, 2012, Plan assets were comprised of mutual funds investing in stocks, bonds, guaranteed investment contracts, and U. S. government securities. The following table presents the fair value of the investments in this Plan. Single investments representing more than 5% of the Plan's net assets as of June 30, 2012 and 2011 are separately identified.

Investments at Fair Value as Determined by Quoted Market Prices	2012	2011
Mutual Funds:		
Dimensional U. S. Large Value	\$ 139,196	\$ 131,406
Federated Capital Preservation	531,504	373,815
Janus Twenty Fund, Inc.	339,599	312,136
Vanguard Index Trust 500 Index	-	538,262
Vanguard Bond Index FD Interm.	-	387,939
Vanguard Mid-Cap Growth Index Inv	-	218,738
Vanguard 500 Index Signal	603,587	-
Vanguard Interim – Term Bond Index Signal	443,769	-
Other Investments Individually Less Than 5% of Plan Assets	297,216	267,962
	<u>\$ 2,354,871</u>	<u>\$ 2,230,258</u>

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Postemployment Benefits

A. Plan Description

Other postemployment benefits (OPEB) provided by the town include single-employer, defined benefit retiree health insurance premium plans.

A retiree, eligible for the plan, is defined as a full-time employee who is participating in the employer's medical and dental program, and may elect coverage if the employee is (a) eligible for VRS retirement (i.e. General Employees; earlier of age 50 and 10 years of service or age 55 and 5 years of service; Hazardous Duty Employees: age 50 and 7 years of service, or (b) disabled employees who qualify for VRS disability (no age or service requirement in VRS). The plan was established by town Council and any amendments to the plan must be approved by the Council. The plan does not issue stand-alone financial reports.

B. Funding Policy

The town Council establishes employer contribution rates for their respective plan participants. The Council has chosen to fund the healthcare benefits on a pay-as-you-go basis.

C. Annual OPEB Cost and Net OPEB Obligation

The town had a roll forward actuarial valuation of postemployment benefits as of July 1, 2010. The annual cost of OPEB under GASB Statement No. 45 is called the annual required contribution or ARC. The pay-as-you-go cost for OPEB benefits for the town's plan is \$95,955 and the annual benefit cost is \$214,500. The percentage of annual OPEB cost contributed is 44.73%.

GASB Statement No. 45 does not require prefunding of OPEB liabilities and the town has elected not to prefund OPEB liabilities at this time. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in the financial statements when the liability is not prefunded. At June 30, 2012, the town has recorded a liability of \$1,089,545 on the Statement of Net Assets. (\$957,934 governmental activities and \$131,611 business-type activities.)

The town is required to contribute the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years on an open basis. The following table shows the components of the annual OPEB cost for the year, the amounts contributed for the year, and the change in the net OPEB obligation:

Annual required contribution (ARC)	\$ 216,100
Interest on net OPEB obligation	38,800
Adjustment to annual required contribution	(40,400)
Annual OPEB cost	<u>214,500</u>
Estimated contributions made	<u>(95,955)</u>
Increase in net OPEB obligation	118,545
Net OPEB obligation, beginning of year	971,000
Net OPEB obligation, end of year	<u>\$ 1,089,545</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Other Postemployment Benefits (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

Trend Information

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net Pension Obligation
June 30, 2012	\$ 214,500	44.73%	\$ 1,089,545
June 30, 2011	205,600	29.47%	971,000
June 30, 2010	601,000	32.95%	826,000

Annual OPEB costs for fiscal year ended June 30, 2010 included the estimated cost of the implicit subsidy. It has since been determined that no implicit subsidy exists for this plan.

D. Funding Status and Funding Progress

As of July 1, 2010, the most recent roll forward actuarial valuation date, the plan was not funded. The actuarial value of assets was \$-0-, resulting in an unfunded actuarial liability (UAAL) of \$2,033,900 for the town's plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan are compared with past expectations and new estimates are made for the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The following table shows the funding status:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
July 1, 2010	\$ -	\$ 2,033,900	\$ 2,033,900	0.00%	\$ 15,625,249	13.02%
July 1, 2008	-	5,284,000	5,284,000	0.00%	14,781,700	35.75%

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 9. Other Postemployment Benefits (Continued)

E. Actuarial Methods and Assumptions

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

In the July 1, 2010 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions include a four percent rate of return, an inflation rate of two and one-half percent, assumed salary scale increase of two and one-half percent, and an annual healthcare cost trend rate of ten percent initially, reduced by one percent decrements to an ultimate rate of five percent. The unfunded liability is amortized over a period of 30 years based on a level percent of payroll method on an open basis.

Note 10. Interfund Receivables and Payables

Interfund balances as of June 30, 2012 are as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise: Chestnut Grove Cemetery	\$ 164,645
General	Governmental: Capital Projects	\$ 85,000
	Total	<u>\$ 249,645</u>

Interfund receivables are recorded to disclose interfund loan balances in the payable funds due at year end.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 11. Interfund Transfers

A summary of interfund transfer activity is presented as follows:

	General Fund	Nonmajor Governmental Fund	Chestnut Grove Cemetery Fund	Total Transferred In
Transfer To Fund:				
Primary government:				
Governmental activities:				
Capital Projects Fund	\$ 578,500	\$ -	\$ -	\$ 578,500
Nonmajor Governmental Fund	50,000	-	37,503	87,503
Business-type activities:				
Chestnut Grove Cemetery Fund	-	55,086	-	55,086
Nonmajor Enterprise Fund	200,000	-	-	200,000
Total Transferred Out	\$ 828,500	\$ 55,086	\$ 37,503	\$ 921,089

The transfers from the General Fund to the Capital Projects Fund, Nonmajor Government Funds, and Nonmajor Enterprise Funds is for capital project expenditures.

The transfer from the Nonmajor Government Fund to the Chestnut Grove Cemetery Fund is for interest income.

The transfer from the Chestnut Grove Cemetery Fund to the Nonmajor Government Fund is for cemetery site sales.

Note 12. Surety Bonds

The town maintains surety bonding with Virginia Municipal Liability Pool as follows:

Official's Name	Title of Official	Amount of Surety Bond
Stephen J. DeBenedittis	Mayor	\$ 250,000
Arthur A. Anselene	Town Manager	250,000
Mary K. Tuohy	Director of Finance	250,000
Stephan A. Greennagel	Deputy Director of Finance	250,000
Myra L. King	Revenue Supervisor	250,000
Diane C. Erway	Purchasing Agent	250,000
Cindy S. Roeder	Director of Parks and Recreation	250,000
Elizabeth M. Gilleran	Director of Community Development	250,000
Robert B. Boxer	Director of Public Works	250,000
Toussaint Summers, Jr.	Chief of Police	250,000
William H. Ashton, III	Director of Information Technology	250,000
Linda A. Simmons	Director of Human Resources	250,000
Gene A. Fleming	Director of Golf	250,000

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 13. Contingency

Federal and State-Assisted Programs

The town has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Note 14. Commitments and Subsequent Event

The town was contacted by the Environmental Protection Agency (EPA) in November 2007 concerning its investigation of a release, or threat of release, of hazardous substances, pollutants or containments into the environment at the Hidden Lane Landfill in Loudoun County, Virginia. The town has furnished all information and documents in relation to any town use of this landfill between 1971 and 1983 to the EPA. The EPA's investigation was still on-going at June 30, 2012 and no indication of potential town liability has been determined.

Note 15. 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 others; and natural disasters. To reduce insurance costs and the need for self-insurance, the town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. The town is not self-insured.

The town has coverage with the Virginia Municipal League Insurance Program (the "Pool") for all insurable risks identified by the town. Each Pool member jointly and severally agrees to assume, pay and discharge any liability. The town pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Pool and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Pool 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 contributes to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 16. Pending GASB Statements

At June 30, 2012, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the town. The statements which might impact the town are as follows:

GASB Statement No. 61, *Financial Reporting Entity Omnibus*, will result in the financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. Statement No. 61 will be effective for periods beginning after June 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Statement No. 62 will be effective for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Statement No. 63 will be effective for periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. Statement No. 65 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 66, *Technical Corrections – 2012*, will improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 will be effective for periods beginning after December 15, 2012.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

The town has not determined the financial reporting effect that any of these statements will have upon the town.



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REQUIRED SUPPLEMENTARY INFORMATION



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TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FUNDING PROGRESS - VIRGINIA RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
June 30, 2011	\$ 47,702,288	\$ 57,592,615	\$ 9,890,327	82.83%	\$ 14,576,815	67.85%
June 30, 2010	45,557,167	54,225,499	8,668,332	84.01%	15,028,251	57.68%
June 30, 2009	43,841,672	47,617,917	3,776,245	92.07%	15,625,249	24.17%

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
July 1, 2010	\$ -	\$ 2,033,900	\$ 2,033,900	0.00%	\$ 15,625,249	13.02%
July 1, 2008	-	5,284,000	5,284,000	0.00%	14,781,700	35.75%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OTHER POSTEMPLOYMENT BENEFITS

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2012	\$ 216,100	44.40%
2011	207,000	29.28%
2010	601,000	32.95%



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SUPPLEMENTARY INFORMATION



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Nonmajor Governmental Funds

Special Revenue Fund

Special revenue funds are used to account for specific revenues that are legally committed by legislative imposition by the Herndon town Council to expenditure for particular purposes. The town's special revenue fund is the Chestnut Grove Cemetery Perpetual Care Fund.

Capital Projects Fund

Capital projects funds are generally used to account for the acquisition and construction of major capital projects other than those financed by proprietary funds and trust funds. The Information Systems Improvement Fund accounts for the town's acquisition of telecommunications equipment, computer hardware and software and other automated systems.

TOWN OF HERNDON, VIRGINIA

Exhibit B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Special Revenue	Capital Projects	
	Chestnut Grove Cemetery Perpetual Care Fund	Information Systems Improvement Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash, cash equivalents and temporary cash investments	\$ 1,395,694	\$ 309,984	\$ 1,705,678
Accrued interest	6,302	-	6,302
Total assets	\$ 1,401,996	\$ 309,984	\$ 1,711,980
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 90,687	\$ 90,687
Fund balances:			
Committed to:			
Cemetery perpetual care	1,401,996	-	1,401,996
Assigned:			
Subsequent years' expenditures for Information Systems Improvement Fund	-	219,297	219,297
Total fund balances	1,401,996	219,297	1,621,293
Total liabilities and fund balances	\$ 1,401,996	\$ 309,984	\$ 1,711,980

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>Special Revenue</u> Chestnut Grove Cemetery Perpetual Care Fund	<u>Capital Projects</u> Information Systems Improvement Fund	Total Nonmajor Governmental Funds
Revenues:			
Revenue from local sources:			
Use of money and property	\$ 55,086	\$ -	\$ 55,086
Total revenues	<u>55,086</u>	<u>-</u>	<u>55,086</u>
Expenditures:			
Capital outlay	-	199,256	199,256
Revenues over (under) expenditures	<u>55,086</u>	<u>(199,256)</u>	<u>(144,170)</u>
Other financing sources (uses):			
Transfers in	37,503	50,000	87,503
Transfers out	(55,086)	-	(55,086)
Total other financing sources (uses), net	<u>(17,583)</u>	<u>50,000</u>	<u>32,417</u>
Net change in fund balances	<u>37,503</u>	<u>(149,256)</u>	<u>(111,753)</u>
Fund balances, July 1	<u>1,364,493</u>	<u>368,553</u>	<u>1,733,046</u>
Fund balances, June 30	<u>\$ 1,401,996</u>	<u>\$ 219,297</u>	<u>\$ 1,621,293</u>



TOWN OF HERNDON, VIRGINIA
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SUPPLEMENTAL SCHEDULES

TOWN OF HERNDON, VIRGINIA

Exhibit B-3

GENERAL FUND
BALANCE SHEET
June 30, 2012
(With Comparative Amounts for 2011)

	2012	2011
ASSETS		
Cash, cash equivalents and temporary cash investments	\$ 11,319,475	\$ 10,549,738
Receivables (net of allowance for doubtful accounts):		
Property taxes	5,031,487	4,650,066
Accounts and other services	654,547	617,052
Accrued interest	57,408	46,366
Due from other governments	746,029	830,704
Inventories	127,084	104,545
Prepaid costs	60,309	58,749
Advances to other funds	249,645	301,810
	<hr/>	<hr/>
Total assets	\$ 18,245,984	\$ 17,159,030
LIABILITIES		
Liabilities:		
Accounts payable	\$ 578,317	\$ 427,103
Accrued payroll	795,049	660,662
Accrued liabilities - other	1,082,606	842,561
Deferred revenue	5,196,506	4,964,154
Deposits	1,781,136	2,082,994
	<hr/>	<hr/>
Total liabilities	9,433,614	8,977,474
Fund Balances:		
Nonspendable:		
Inventories	127,084	104,545
Prepaid costs	60,309	58,749
Loan to Capital Projects Fund	85,000	124,500
Loan to Cemetery Fund	164,645	177,310
Committed:		
Revenue stabilization	200,000	-
Assigned to:		
Operating materials, services and supplies	364,531	499,980
Capital equipment and vehicles	96,286	145,380
Subsequent years' expenditures	814,723	801,747
Unassigned	6,899,792	6,269,345
	<hr/>	<hr/>
Total fund balances	8,812,370	8,181,556
	<hr/>	<hr/>
Total liabilities and fund balances	\$ 18,245,984	\$ 17,159,030

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 1

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 9,095,100	\$ 9,095,100	\$ 9,139,679	\$ 44,579
Elderly tax relief exemption	-	-	(72,003)	(72,003)
Public service corporation taxes	365,500	365,500	358,816	(6,684)
Penalties and interest	52,400	52,400	43,412	(8,988)
Total general property taxes	9,513,000	9,513,000	9,469,904	(43,096)
Other local taxes:				
Consumer utility tax	791,900	791,900	789,609	(2,291)
Right of way use fees	202,700	202,700	174,384	(28,316)
Cigarette tax	386,700	386,700	364,975	(21,725)
Transient occupancy tax	2,284,300	2,284,300	2,235,969	(48,331)
Bank stock tax	280,000	280,000	249,084	(30,916)
Cable T.V. franchise fees	152,000	152,000	206,822	54,822
Business licenses tax	3,440,100	3,440,100	3,928,098	487,998
Utility consumption tax	108,500	108,500	92,935	(15,565)
Motor vehicle licenses	373,700	373,700	386,712	13,012
Local sales tax	1,448,900	1,448,900	1,601,032	152,132
Meals tax	1,822,400	1,822,400	1,991,460	169,060
Total other local taxes	11,291,200	11,291,200	12,021,080	729,880
Permits, privilege fees and regulatory licenses:				
Planning fees	64,000	64,000	38,567	(25,433)
Building inspection fees and permits	293,400	293,400	254,106	(39,294)
Right of way permit fees	16,200	16,200	14,798	(1,402)
Total permits, privilege fees and regulatory licenses	373,600	373,600	307,471	(66,129)
Fines and forfeitures:				
Court fines and costs	90,000	90,000	99,158	9,158
Court fees - Fairfax County	405,800	405,800	468,821	63,021
Court maintenance fees	15,000	15,000	13,996	(1,004)
Zoning fines	10,800	10,800	4,632	(6,168)
Total fines and forfeitures	521,600	521,600	586,607	65,007

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 346,800	\$ 346,800	\$ 174,833	\$ (171,967)
Rental income	437,520	437,520	345,963	(91,557)
Total use of money and property	784,320	784,320	520,796	(263,524)
Charges for services:				
Franchise lease	98,470	98,470	98,137	(333)
Commercial refuse collection	21,500	21,500	11,505	(9,995)
Recycling collection	82,200	82,200	97,895	15,695
Recreation program fees	1,621,430	1,621,430	1,636,634	15,204
Admission fees	480,850	480,850	569,540	88,690
Park operation	7,100	7,100	8,650	1,550
Herndon festival	287,300	287,300	335,295	47,995
Concession	24,400	24,400	24,715	315
Rental income - parks & recreation	75,220	75,220	61,309	(13,911)
Tennis/multi-use facility	208,380	208,380	201,161	(7,219)
Sale of recyclable materials	20,000	20,000	20,573	573
Quasi - external revenue - charges for administration, personnel and other services:				
Chestnut Grove Cemetery fund	14,340	14,340	14,340	-
Golf course fund	29,580	29,580	29,580	-
Water and sewer fund	444,350	444,350	444,350	-
Total charges for services	3,415,120	3,415,120	3,553,684	138,564
Miscellaneous:				
Miscellaneous	28,350	28,350	133,216	104,866
Total revenue from local sources	25,927,190	25,927,190	26,592,758	665,568
Intergovernmental:				
County of Fairfax:				
Contribution for neighborhood resource center	39,130	39,130	29,348	(9,782)
Contribution toward tourism and economic development	40,000	40,000	40,000	-
Total from County of Fairfax	79,130	79,130	69,348	(9,782)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3

GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Intergovernmental: (Continued)				
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	\$ 549,060	\$ 549,060	\$ 548,704	\$ (356)
5% communications tax	1,850,700	1,850,700	1,758,637	(92,063)
Vehicle rental taxes	28,910	28,910	31,994	3,084
Total non-categorical aid	2,428,670	2,428,670	2,339,335	(89,335)
Categorical aid:				
Fire fund program	60,780	60,780	62,264	1,484
Litter control grant	5,620	5,620	4,678	(942)
Financial assistance for the arts	5,000	5,000	-	(5,000)
Dept. of Criminal Justice Service grants	20,000	20,000	-	(20,000)
Street and highway maintenance allocation	1,515,260	1,515,260	1,586,427	71,167
Total categorical aid	1,606,660	1,606,660	1,653,369	46,709
Total from the Commonwealth	4,035,330	4,035,330	3,992,704	(42,626)
Federal government:				
Categorical aid:				
Office of Justice Pgms./VEST grant	-	-	4,656	4,656
Dept. of Transportation/State & Community Highway Safety grant	17,500	17,500	17,269	(231)
Office of Justice Pgms./JJDP grant	131,200	131,200	96,722	(34,478)
Dept. of Transportation/ National Highway Safety Administration - Selective Enforcement grant	20,000	20,000	22,872	2,872
CMAQ grant - alternative fuel vehicles	-	-	88,595	88,595
ARRA- Office of Juvenile Justice/ICAC grant	20,000	20,000	17,094	(2,906)
Dept. of Housing & Urban Dev./Bilingual grant	89,380	89,380	89,380	-
Total from the Federal government	278,080	278,080	336,588	58,508
Total intergovernmental revenue	4,392,540	4,392,540	4,398,640	6,100
Total General Fund revenues	\$ 30,319,730	\$ 30,319,730	\$ 30,991,398	\$ 671,668

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 1

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Legislative:				
Personnel services	\$ 371,120	\$ 371,120	\$ 373,545	\$ 2,425
Operations and maintenance	207,140	207,140	200,457	(6,683)
Total legislative	578,260	578,260	574,002	(4,258)
Administration:				
Public information:				
Personnel services	160,780	160,780	161,475	695
Operations and maintenance	217,100	246,500	108,880	(137,620)
	377,880	407,280	270,355	(136,925)
Town manager:				
Personnel services	326,900	326,900	328,591	1,691
Operations and maintenance	16,720	16,720	16,155	(565)
	343,620	343,620	344,746	1,126
Human resources:				
Personnel services	380,290	380,290	378,633	(1,657)
Operations and maintenance	60,590	125,711	100,157	(25,554)
	440,880	506,001	478,790	(27,211)
Information services:				
Personnel services	660,260	660,260	647,241	(13,019)
Operations and maintenance	254,840	262,590	247,930	(14,660)
Capital outlay	45,000	50,638	50,310	(328)
	960,100	973,488	945,481	(28,007)
Total administration	2,122,480	2,230,389	2,039,372	(191,017)
Town attorney:				
Personnel services	311,310	311,310	309,264	(2,046)
Operations and maintenance	262,500	326,285	156,450	(169,835)
Total town attorney	573,810	637,595	465,714	(171,881)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 2

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Parks and recreation:				
Administration:				
Personnel services	\$ 409,020	\$ 409,020	\$ 415,378	\$ 6,358
Operations and maintenance	98,890	96,390	91,159	(5,231)
	<u>507,910</u>	<u>505,410</u>	<u>506,537</u>	<u>1,127</u>
Recreation programs:				
Personnel services	811,100	788,800	855,875	67,075
Operations and maintenance	579,860	589,232	494,516	(94,716)
	<u>1,390,960</u>	<u>1,378,032</u>	<u>1,350,391</u>	<u>(27,641)</u>
Community center operations:				
Personnel services	803,620	825,920	724,412	(101,508)
Operations and maintenance	215,600	217,721	203,701	(14,020)
	<u>1,019,220</u>	<u>1,043,641</u>	<u>928,113</u>	<u>(115,528)</u>
Aquatics programs and operations:				
Personnel services	571,330	571,330	571,951	621
Operations and maintenance	136,230	136,230	125,495	(10,735)
Capital outlay	8,000	8,000	-	(8,000)
	<u>715,560</u>	<u>715,560</u>	<u>697,446</u>	<u>(18,114)</u>
Park operations and development:				
Personnel services	67,630	67,630	62,680	(4,950)
Operations and maintenance	78,500	89,775	70,385	(19,390)
	<u>146,130</u>	<u>157,405</u>	<u>133,065</u>	<u>(24,340)</u>
Total parks and recreation	<u>3,779,780</u>	<u>3,800,048</u>	<u>3,615,552</u>	<u>(184,496)</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 3

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Finance:				
Administration:				
Personnel services	\$ 225,270	\$ 225,270	\$ 223,041	\$ (2,229)
Operations and maintenance	259,670	285,065	279,454	(5,611)
	484,940	510,335	502,495	(7,840)
Billing and accounting:				
Personnel services	414,030	414,030	413,867	(163)
Operations and maintenance	18,330	18,330	14,541	(3,789)
	432,360	432,360	428,408	(3,952)
Revenue:				
Personnel services	185,540	185,540	188,148	2,608
Operations and maintenance	27,750	30,250	30,743	493
	213,290	215,790	218,891	3,101
Procurement:				
Personnel services	83,560	83,560	83,365	(195)
Operations and maintenance	4,240	4,255	3,500	(755)
	87,800	87,815	86,865	(950)
Total finance	1,218,390	1,246,300	1,236,659	(9,641)
Community development:				
Administration:				
Personnel services	1,237,260	1,231,260	1,222,204	(9,056)
Operations and maintenance	135,120	338,699	187,550	(151,149)
	1,372,380	1,569,959	1,409,754	(160,205)
Community inspections:				
Personnel services	433,240	433,240	432,598	(642)
Operations and maintenance	12,250	11,660	10,855	(805)
	445,490	444,900	443,453	(1,447)
Neighborhood resources:				
Personnel services	153,810	153,810	146,147	(7,663)
Operations and maintenance	84,750	95,500	69,924	(25,576)
	238,560	249,310	216,071	(33,239)
Total community development	2,056,430	2,264,169	2,069,278	(194,891)

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 4

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Police:				
Field operations:				
Personnel services	\$ 4,848,180	\$ 4,817,280	\$ 4,953,989	\$ 136,709
Operations and maintenance	151,500	146,500	159,848	13,348
Capital outlay	228,470	410,497	366,140	(44,357)
	<u>5,228,150</u>	<u>5,374,277</u>	<u>5,479,977</u>	<u>105,700</u>
Support services:				
Personnel services	3,022,740	2,977,740	2,965,420	(12,320)
Operations and maintenance	394,530	409,831	360,125	(49,706)
Capital outlay	9,230	24,945	23,545	(1,400)
	<u>3,426,500</u>	<u>3,412,516</u>	<u>3,349,090</u>	<u>(63,426)</u>
Total police	<u>8,654,650</u>	<u>8,786,793</u>	<u>8,829,067</u>	<u>42,274</u>
Public Works:				
Administration:				
Personnel services	791,020	715,499	663,630	(51,869)
Operations and maintenance	36,320	44,330	39,573	(4,757)
	<u>827,340</u>	<u>759,829</u>	<u>703,203</u>	<u>(56,626)</u>
Engineering:				
Personnel services	460,830	461,830	460,636	(1,194)
Operations and maintenance	54,720	104,086	43,900	(60,186)
	<u>515,550</u>	<u>565,916</u>	<u>504,536</u>	<u>(61,380)</u>
Program management:				
Personnel services	236,230	236,230	236,201	(29)
Operations and maintenance	7,850	28,551	10,310	(18,241)
	<u>244,080</u>	<u>264,781</u>	<u>246,511</u>	<u>(18,270)</u>
Building inspections:				
Personnel services	439,480	439,480	437,645	(1,835)
Operations and maintenance	77,080	77,643	76,199	(1,444)
	<u>516,560</u>	<u>517,123</u>	<u>513,844</u>	<u>(3,279)</u>
Building maintenance:				
Personnel services	537,940	537,140	536,630	(510)
Operations and maintenance	763,550	836,077	951,429	115,352
Capital outlay	-	26,000	-	(26,000)
	<u>1,301,490</u>	<u>1,399,217</u>	<u>1,488,059</u>	<u>88,842</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 5

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 586,300	\$ 582,900	\$ 425,962	\$ (156,938)
Operations and maintenance	139,350	165,223	73,070	(92,153)
	<u>725,650</u>	<u>748,123</u>	<u>499,032</u>	<u>(249,091)</u>
Street maintenance:				
Personnel services	651,520	651,520	734,668	83,148
Operations and maintenance	638,700	814,486	959,135	144,649
Capital outlay	30,000	233,149	29,357	(203,792)
	<u>1,320,220</u>	<u>1,699,155</u>	<u>1,723,160</u>	<u>24,005</u>
Refuse/recycling:				
Personnel services	930,320	930,320	924,244	(6,076)
Operations and maintenance	488,630	499,020	455,909	(43,111)
Capital outlay	6,200	5,812	5,812	-
	<u>1,425,150</u>	<u>1,435,152</u>	<u>1,385,965</u>	<u>(49,187)</u>
Vehicle and equipment maintenance:				
Personnel services	775,230	775,230	753,638	(21,592)
Operations and maintenance	383,800	406,783	295,543	(111,240)
Capital outlay	24,000	24,000	-	(24,000)
	<u>1,183,030</u>	<u>1,206,013</u>	<u>1,049,181</u>	<u>(156,832)</u>
Traffic engineering:				
Personnel services	224,380	224,380	157,136	(67,244)
Operations and maintenance	107,300	115,881	7,737	(108,144)
Capital outlay	-	10,000	10,000	-
	<u>331,680</u>	<u>350,261</u>	<u>174,873</u>	<u>(175,388)</u>
Right of way inspections:				
Personnel services	243,440	243,440	239,727	(3,713)
Operations and maintenance	9,600	9,600	6,817	(2,783)
	<u>253,040</u>	<u>253,040</u>	<u>246,544</u>	<u>(6,496)</u>
Total public works	<u>8,643,790</u>	<u>9,198,610</u>	<u>8,534,908</u>	<u>(663,702)</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-5
Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Grants:				
Operations	\$ -	\$ 22,551	\$ 52,544	\$ 29,993
Total grants	-	22,551	52,544	29,993
Debt service:				
Principal	1,458,650	1,458,650	1,458,640	(10)
Interest and fiscal charges	690,990	690,990	695,817	4,827
Total debt service	2,149,640	2,149,640	2,154,457	4,817
Total General Fund expenditures	\$ 29,777,230	\$ 30,914,355	\$ 29,571,553	\$ (1,342,802)

TOWN OF HERNDON, VIRGINIA

Exhibit B-6

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - CAPITAL PROJECTS AND INFORMATION SYSTEMS IMPROVEMENT FUNDS
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Use of money and property	\$ 261,000	\$ 261,000	\$ 323,669	\$ 62,669
Miscellaneous	70,000	70,000	40,000	(30,000)
Intergovernmental	1,568,000	1,568,000	1,203,331	(364,669)
Total revenues	1,899,000	1,899,000	1,567,000	(332,000)
Capital Outlay:				
Parks and recreation	40,000	678,451	29,172	(649,279)
Community development	-	50,168	26,634	(23,534)
Public works				
Buildings and grounds	250,000	918,490	14,175	(904,315)
Streets and sidewalks	2,933,000	9,098,528	1,022,392	(8,076,136)
Other infrastructure	215,000	1,518,518	1,021,970	(496,548)
Information systems improvements	663,000	967,510	199,256	(768,254)
Total expenditures	4,101,000	13,231,665	2,313,599	(10,918,066)
Revenues under expenditures	(2,202,000)	(11,332,665)	(746,599)	10,586,066
Other financing sources:				
Issuance of debt	1,613,000	1,613,000	97,500	(1,515,500)
Transfers in	589,000	589,000	628,500	39,500
Total other financing sources	2,202,000	2,202,000	726,000	(1,476,000)
Net change in fund balance	-	(9,130,665)	(20,599)	9,110,066
Fund balance, July 1	-	9,130,665	9,094,285	(36,380)
Fund balance, June 30	\$ -	\$ -	\$ 9,073,686	\$ 9,073,686

TOWN OF HERNDON, VIRGINIA

Exhibit B-7
Page 1

CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Folly Lick Watershed:				
Builder contributions	\$ 413,140	\$ 413,140	\$ -	\$ 413,140
Transfer from General Fund	753,330	753,330	-	753,330
Proceeds from County of Fairfax	463,102	463,102	-	463,102
Interest on investments	642,907	641,574	1,333	642,907
Reallocation of remaining authorizations	(1,878,417)	(1,848,417)	(30,000)	(1,878,417)
Horse Pen Run Watershed:				
Builder contributions	21,581	21,581	-	21,581
Interest on investments	20,124	19,210	914	20,124
Storm Drain Easement/Construction:				
Builder contributions	14,171	14,171	-	14,171
Federal/state grants	97,500	-	97,500	97,500
Proceeds from bond issue	197,500	100,000	97,500	197,500
Transfer from General Fund	1,485,200	1,485,200	-	1,485,200
Interest on investments	216,197	209,538	6,659	216,197
Reallocation of remaining authorizations	112,198	(36,173)	148,371	112,198
Huntmar-Spring/Van Buren Street Improvements:				
Builder bond default	18,750	18,750	-	18,750
Interest on investments	27,308	26,633	675	27,308
Reallocation of remaining authorizations	(25,677)	(25,002)	(675)	(25,677)

TOWN OF HERNDON, VIRGINIA

Exhibit B-7
Page 2

CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Traffic Signals and Automated Control Systems:				
Builder contributions	\$ 6,250	\$ 6,250	\$ -	\$ 6,250
Federal/state grants	72,968	72,968	-	72,968
Transfer from General Fund	572,294	572,294	-	572,294
Interest on investments	98,475	97,633	842	98,475
Reallocation of remaining authorizations	270,872	301,714	(30,842)	270,872
Streets - VDOT Contributions:				
Transfer from General Fund	90,000	90,000	-	90,000
Interest on investments	61,595	60,017	1,578	61,595
Reallocation of remaining authorizations	32,156	33,734	(1,578)	32,156
Street Light Installation:				
Transfer from General Fund	326,000	291,000	35,000	326,000
Interest on investments	92,729	88,545	4,184	92,729
Reallocation of remaining authorizations	(95,305)	(68,009)	(27,296)	(95,305)
Ball Field Improvements/Recreation Facilities:				
Builder contributions	111,500	111,500	-	111,500
Donations	12,500	12,500	-	12,500
Fairfax County grant	12,500	12,500	-	12,500
Transfer from General Fund	336,214	336,214	-	336,214
Interest on investments	97,138	93,150	3,988	97,138
Reallocation of remaining authorizations	(240,466)	(236,478)	(3,988)	(240,466)

TOWN OF HERNDON, VIRGINIA

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUE AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Herndon Community Center - Phase IV/ Fixtures:				
Proceeds from bond issue	\$ 4,800,000	\$ 4,800,000	\$ -	\$ 4,800,000
Premium/(discount) on debt, net	(4,368)	(4,368)	-	(4,368)
Transfer from General Fund	1,290,000	1,290,000	-	1,290,000
Interest on investment	229,027	229,027	-	229,027
Reallocation of remaining authorizations	(1,355,950)	(1,335,068)	(20,882)	(1,355,950)
Locust Street Improvements:				
Builder contributions	61,083	61,083	-	61,083
Interest on investments	59,096	57,444	1,652	59,096
Reallocation of remaining authorizations	(74,207)	(72,555)	(1,652)	(74,207)
Downtown Street Improvements:				
Federal/state grants	736,659	736,659	-	736,659
Proceeds from bond issue	787,032	787,032	-	787,032
Transfer from General Fund	1,766,968	1,766,968	-	1,766,968
Interest on investments	502,410	461,147	41,263	502,410
Reallocation of remaining authorizations	(1,510,134)	(1,482,321)	(27,813)	(1,510,134)
Tennis/Multi-Use Activity Center:				
Transfer from General Fund	690,000	650,500	39,500	690,000
Interest on investments	194,015	187,790	6,225	194,015
Reallocation of remaining authorizations	(337,766)	(292,041)	(45,725)	(337,766)

TOWN OF HERNDON, VIRGINIA

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Gateway Entrances:				
Transfer from General Fund	\$ 62,000	\$ 62,000	\$ -	\$ 62,000
Interest on investments	35,292	33,768	1,524	35,292
Reallocation of remaining authorizations	(49,753)	(48,229)	(1,524)	(49,753)
Trails and Sidewalks:				
Federal/state/ county grants	50,000	-	50,000	50,000
Transfer from General Fund	179,000	150,000	29,000	179,000
Interest on investments	52,809	49,393	3,416	52,809
Reallocation of remaining authorizations	5,525	33,085	(27,560)	5,525
Town Shop Improvements:				
Proceeds from bond issue	1,130,000	1,130,000	-	1,130,000
Transfer from General Fund	85,000	85,000	-	85,000
Interest on investments	56,228	54,237	1,991	56,228
Reallocation of remaining authorizations	(85,459)	(83,468)	(1,991)	(85,459)
Nash Street Improvements:				
Builders contributions	5,000	5,000	-	5,000
Transfer from General Fund	8,000	8,000	-	8,000
Interest on investments	8,516	8,516	-	8,516
Reallocation of remaining authorizations	(10,076)	(10,076)	-	(10,076)

TOWN OF HERNDON, VIRGINIA

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Bus Stop Shelters:				
Transfer from General Fund	\$ 30,000	\$ 30,000	\$ -	\$ 30,000
Interest on investments	25,224	24,229	995	25,224
Reallocation of remaining authorizations	31,321	32,316	(995)	31,321
South Elden Street Improvements:				
Federal/state grants	405,105	405,105	-	405,105
Transfer from General Fund	363,726	363,726	-	363,726
Proceeds from bond issue	590,274	590,274	-	590,274
Interest on investments	264,897	264,015	882	264,897
Reallocation of remaining authorizations	(300,016)	(299,134)	(882)	(300,016)
East Elden Street Interim Improvements:				
Transfer from General Fund	370,000	370,000	-	370,000
Interest on investments	69,176	67,527	1,649	69,176
Reallocation of remaining authorizations	(44,562)	(42,913)	(1,649)	(44,562)
Town Depot Improvements:				
Transfer from General Fund	70,000	70,000	-	70,000
Interest on investments	59,427	56,907	2,520	59,427
Reallocation of remaining authorizations	(39,155)	(36,635)	(2,520)	(39,155)

TOWN OF HERNDON, VIRGINIA

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Herndon Parkway/Van Buren St. Intersection Improvements:				
Transfer from General Fund	\$ 25,000	\$ 25,000	\$ -	\$ 25,000
Interest on investments	17,000	16,099	901	17,000
Reallocation of remaining authorizations	(17,000)	(16,099)	(901)	(17,000)
Town Hall Rehabilitation:				
Transfer from General Fund	124,000	124,000	-	124,000
Interest on investments	49,379	48,470	909	49,379
Reallocation of remaining authorizations	(89,868)	(49,399)	(40,469)	(89,868)
HMC Computer Equipment Room Renovations:				
Interest on investments	9,396	8,593	803	9,396
Reallocation of remaining authorizations	205,485	206,288	(803)	205,485
Skate Park Facility:				
Builder contributions	150,000	150,000	-	150,000
Transfer from General Fund	25,000	25,000	-	25,000
Interest on investments	39,247	39,247	-	39,247
Reallocation of remaining authorizations	(40,155)	(40,155)	-	(40,155)

TOWN OF HERNDON, VIRGINIA

Exhibit B-7
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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Elden Street/Center Street Intersection Improvements:				
Proceeds from bond issue	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
Transfer from General Fund	50,000	50,000	-	50,000
Interest on investments	36,968	33,366	3,602	36,968
Reallocation of remaining authorizations	(36,968)	(33,366)	(3,602)	(36,968)
Pearl/Nash/Oak/Wood Streets Improvements:				
Proceeds from bond issue	1,000,000	1,000,000	-	1,000,000
Transfer from General Fund	135,000	135,000	-	135,000
Interest on investments	67,194	56,269	10,925	67,194
Reallocation of remaining authorizations	(575,795)	(72,780)	(503,015)	(575,795)
W & OD Trail Enhancements (CMAQ grant):				
Interest on investments	63,684	49,103	14,581	63,684
Reallocation of remaining authorizations	382,312	400,897	(18,585)	382,312
Station Street Improvements:				
Federal/state grants	148,350	30,045	118,305	148,350
Proceeds from bond issue	1,003,000	1,003,000	-	1,003,000
Transfer from General Fund	140,000	140,000	-	140,000
Interest on investments	139,803	81,661	58,142	139,803
Donated property	11,000	11,000	-	11,000
Reallocation of remaining authorizations	512,814	442,912	69,902	512,814

TOWN OF HERNDON, VIRGINIA

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Metro Rail/Worldgate Area Planning:				
Transfer from General Fund	\$ 300,000	\$ 300,000	\$ -	\$ 300,000
Interest on investments	7,027	6,179	848	7,027
Reallocation of remaining authorizations	13,995	(14,791)	28,786	13,995
Stream Bank Stabilization:				
Transfer from General Fund	30,000	30,000	-	30,000
Interest on investments	2,099	1,667	432	2,099
Reallocation of remaining authorizations	(2,099)	(3,367)	1,268	(2,099)
Park Avenue and Monroe Street Intersection:				
Federal/state grants	33,499	-	33,499	33,499
Proceeds from bond issue	742,000	742,000	-	742,000
Transfer from General Fund	60,000	60,000	-	60,000
Interest on investments	91,014	40,199	50,815	91,014
Reallocation of remaining authorizations	600,188	(758,019)	1,358,207	600,188
Herndon Parkway Intersections Studies (VDOT grant):				
Federal/state grants	37,209	-	37,209	37,209
Interest on investments	158,127	96,072	62,055	158,127
Reallocation of remaining authorizations	1,564,613	1,163,928	400,685	1,564,613

TOWN OF HERNDON, VIRGINIA

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Improvements to 397 Herndon Parkway:				
Interest on investments	\$ 6,234	\$ 4,953	\$ 1,281	\$ 6,234
Reallocation of remaining authorizations	44,903	21,184	23,719	44,903
W & OD Trail Lighting:				
Builder contributions	30,000	30,000	-	30,000
Interest on investments	7,158	6,077	1,081	7,158
Reallocation of remaining authorizations	(7,158)	(6,077)	(1,081)	(7,158)
Downtown Utility Relocation:				
Federal/state grants	955,575	88,757	866,818	955,575
Transfer from General Fund	150,000	-	150,000	150,000
Interest on investments	5,403	-	5,403	5,403
Reallocation of remaining authorizations	(19,046)	-	(19,046)	(19,046)
Dranesville Road Improvements:				
Proceeds from bond issue	200,000	200,000	-	200,000
Transfer from General Fund	250,000	250,000	-	250,000
Interest on investments	35,837	9,719	26,118	35,837
Reallocation of remaining authorizations	348,991	(70,683)	419,674	348,991

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CAPITAL PROJECTS FUND
SCHEDULE OF ACTUAL REVENUES AND OTHER FINANCING SOURCES (USES)
COMPARED WITH ESTIMATED REVENUES
Year Ended June 30, 2012

Project	Estimated Revenues	Actual Revenues and Other Financing Sources (Uses)		Total Actual Revenues
		Prior Years	Current Year	
Haley M. Smith Park - Service Building:				
Builder contributions	\$ 40,000	\$ -	\$ 40,000	\$ 40,000
Interest on investments	1,426	-	1,426	1,426
Reallocation of remaining authorizations	(1,826)	-	(1,826)	(1,826)
Major Road Repaving:				
Transfer from General Fund	325,000	-	325,000	325,000
Interest on investments	2,057	-	2,057	2,057
Reallocation of remaining authorizations	(2,084)	-	(2,084)	(2,084)
Assigned to Subsequent Years' Expenditures:				
Transfer from Information Systems Improvement Fund	226,568	226,568	-	226,568
Miscellaneous	83,960	83,960	-	83,960
Reallocation of remaining authorizations	461,795	2,093,423	(1,631,628)	461,795
Totals	\$ 26,105,009	\$ 23,862,009	\$ 2,243,000	\$ 26,105,009

TOWN OF HERNDON, VIRGINIA

Exhibit B-8
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CAPITAL PROJECTS FUND
SCHEDULE OF EXPENDITURES COMPARED WITH AUTHORIZATIONS
Year Ended June 30, 2012

	Authorization	Expenditures		Total Expenditures	Remaining Authorizations
		Prior Years	Current Year		
Folly Lick Watershed	\$ 394,062	\$ 385,723	\$ -	\$ 385,723	\$ 8,339
Horse Pen Run Watershed	41,705	13,748	1,675	15,423	26,282
Storm Drain Easement/Construction	2,122,766	1,746,393	161,520	1,907,913	214,853
Huntmar-Spring/Van Buren Street Improvements	20,381	1,631	-	1,631	18,750
Traffic Signals and Automated Control Systems	1,020,859	997,491	-	997,491	23,368
Streets - VDOT Contributions	183,751	139,937	-	139,937	43,814
Street Light Installations	323,424	201,682	5,600	207,282	116,142
Ball Field Improvements/Recreation Facilities	329,386	218,656	-	218,656	110,730
Herndon Community Center - Phase IV/ Fixtures	4,958,709	4,944,253	6,250	4,950,503	8,206
Locust Street Improvements	45,972	111	-	111	45,861
Downtown Street Improvements	2,282,935	1,104,059	33,339	1,137,398	1,145,537
Tennis/Multi-Use Activity Center	546,249	546,249	-	546,249	-
Gateway Entrances	47,539	5,232	-	5,232	42,307
Trails and Sidewalks	287,334	89,293	103,204	192,497	94,837
Town Shop Improvements	1,185,769	1,130,496	-	1,130,496	55,273
Nash Street Improvements	11,440	6,226	-	6,226	5,214
Bus Stop Shelters	86,545	58,914	-	58,914	27,631
South Elden Street Improvements	1,323,986	1,299,514	-	1,299,514	24,472
East Elden Street Interim Improvements	394,614	348,828	-	348,828	45,786
Town Depot Improvements	90,272	10,868	9,445	20,313	69,959

TOWN OF HERNDON, VIRGINIA

Exhibit B-8
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CAPITAL PROJECTS FUND
SCHEDULE OF EXPENDITURES COMPARED WITH AUTHORIZATIONS
Year Ended June 30, 2012

	Authorization	Expenditures		Total Expenditures	Remaining Authorizations
		Prior Years	Current Year		
Herndon Parkway/Van Buren Street Intersection Improvements	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000
Town Hall Rehabilitation	83,511	57,725	550	58,275	25,236
HMC Computer Equipment Room Renovations	214,881	192,577	-	192,577	22,304
Skate Park Facility	174,092	167,504	675	168,179	5,913
Elden Street/Center Street Intersection Improvements	100,000	-	-	-	100,000
Pearl/Nash/Oak/Wood Streets Improvements	626,399	99,862	229,271	329,133	297,266
W & OD Trail Enhancements (CMAQ grant)	445,996	18,944	22,247	41,191	404,805
Station Street Improvements	1,954,967	139,182	206,089	345,271	1,609,696
Metro Rail/Worldgate Area Planning	321,022	270,854	26,634	297,488	23,534
Stream Bank Stabilization	30,000	16,300	1,700	18,000	12,000
Park Avenue and Monroe Street Intersection	1,526,701	67,639	52,198	119,837	1,406,864
Herndon Parkway Intersections Studies (VDOT grant)	1,759,949	-	37,209	37,209	1,722,740
Improvements to 397 Herndon Parkway	51,137	13,093	2,480	15,573	35,564
W & OD Trail Lighting	30,000	-	-	-	30,000
Downtown Utility Relocation	1,091,932	88,757	853,175	941,932	150,000
Dranesville Road Improvements	834,828	16,536	93,208	109,744	725,084
Haley M. Smith Park - Service Building	39,600	-	-	-	39,600
Major Road Repaving	324,973	-	267,874	267,874	57,099
Assigned to Subsequent Years' Expenditures	772,323	738,000	-	738,000	34,323
Totals	\$ 26,105,009	\$ 15,136,277	\$ 2,114,343	\$ 17,250,620	\$ 8,854,389

TOWN OF HERNDON, VIRGINIA

Exhibit B-9

INFORMATION SYSTEMS IMPROVEMENT FUND
 SCHEDULE OF EXPENDITURES COMPARED WITH AUTHORIZATIONS
 Year Ended June 30, 2012

	Authorization	Expenditures		Total Expenditures	Remaining Authorizations
		Prior Years	Current Year		
Personal Computers, Printers and File Servers	\$ 1,398,415	\$ 1,381,569	\$ 16,846	\$ 1,398,415	\$ -
WAN/I-NET and Internet Presence	1,009,971	867,139	142,832	1,009,971	-
Citizens Relationship Software	202,598	192,998	-	192,998	9,600
Financial/Human Resources Software Replacement	623,278	-	39,578	39,578	583,700
Disaster Recovery/Business Continuity Plans	78,251	78,251	-	78,251	-
Parks & Recreation Registration Software	90,000	-	-	-	90,000
Assigned to Subsequent Years' Expenditures/ Future Financing Needed for Authorizations	(464,003)	-	-	-	(464,003)
Totals	\$ 2,938,510	\$ 2,519,957	\$ 199,256	\$ 2,719,213	\$ 219,297

TOWN OF HERNDON, VIRGINIA

Exhibit B-10

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
 WATER AND SEWER FUND
 Year Ended June 30, 2012

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Sale of water	\$ 2,725,000	\$ 2,718,877	\$ (6,123)
Sewer service charges	2,555,000	3,028,487	473,487
Late payment charges	59,500	55,853	(3,647)
Sale of commodities	16,000	12,607	(3,393)
Rents and leases	420,000	417,122	(2,878)
Miscellaneous	25,400	17,617	(7,783)
Total operating revenues	5,800,900	6,250,563	449,663
Operating expenses:			
Finance	221,530	225,287	3,757
Water main maintenance	2,341,832	2,080,207	(261,625)
Sewer service charge	4,679,288	3,641,841	(1,037,447)
Contractual services	444,350	444,350	-
Nondepartmental:			
Depreciation and amortization	-	729,031	729,031
Miscellaneous	52,070	53,262	1,192
Total operating expenses	7,739,070	7,173,978	(565,092)
Operating loss	(1,938,170)	(923,415)	1,014,755
Nonoperating revenues:			
Investment earnings	585,000	508,028	(76,972)
Availability fees	549,600	391,965	(157,635)
Total nonoperating revenues	1,134,600	899,993	(234,607)
Loss before capital contributions	(803,570)	(23,422)	780,148
Capital contributions	-	50,512	50,512
Change in net assets	\$ (803,570)	27,090	\$ 830,660
Total net assets, July 1		<u>23,746,897</u>	
Total net assets, June 30		<u>\$ 23,773,987</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-11

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
 GOLF COURSE FUND
 Year Ended June 30, 2012

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Rents and leases	\$ 39,300	\$ 41,793	\$ 2,493
Greens fees	954,240	1,003,333	49,093
Golf cart revenue	258,500	276,823	18,323
Golf pro shop sales	64,000	67,781	3,781
Driving range fees	64,300	71,114	6,814
Miscellaneous	20,900	21,492	592
Total operating revenues	1,401,240	1,482,336	81,096
Operating expenses:			
Golf course operations	673,732	640,066	(33,666)
Golf course club house	569,183	556,941	(12,242)
Nondepartmental:			
Depreciation and amortization	-	238,900	238,900
Miscellaneous	53,430	55,285	1,855
Total operating expenses	1,296,345	1,491,192	194,847
Operating income (loss)	104,895	(8,856)	(113,751)
Nonoperating revenues (expenses):			
Investment earnings	24,000	13,959	(10,041)
Interest expense	(46,625)	(40,314)	6,311
Total nonoperating expenses, net	(22,625)	(26,355)	(3,730)
Change in net assets	\$ 82,270	(35,211)	\$ (117,481)
Total net assets, July 1		<u>3,634,211</u>	
Total net assets, June 30		<u>\$ 3,599,000</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-12

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
 CHESTNUT GROVE CEMETERY FUND
 Year Ended June 30, 2012

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Cemetery sites	\$ 357,000	\$ 375,026	\$ 18,026
Interment services	151,000	155,640	4,640
Merchandise sales	110,000	108,441	(1,559)
Miscellaneous	17,000	34,387	17,387
Total operating revenues	635,000	673,494	38,494
Operating expenses:			
Cemetery operations	473,822	453,578	(20,244)
Nondepartmental:			
Depreciation and amortization	-	116,561	116,561
Miscellaneous	21,090	21,746	656
Total operating expenses	494,912	591,885	96,973
Operating income	140,088	81,609	(58,479)
Nonoperating revenues (expenses):			
Investment earnings	10,000	12,655	2,655
Interest expense	(96,650)	(95,077)	1,573
Total nonoperating expenses, net	(86,650)	(82,422)	4,228
Income (loss) before transfers	53,438	(813)	(54,251)
Transfers in	68,000	55,086	(12,914)
Transfers out	(35,700)	(37,503)	(1,803)
Change in net assets	\$ 85,738	16,770	\$ (68,968)
Total net assets, July 1		<u>1,032,481</u>	
Total net assets, June 30		<u>\$ 1,049,251</u>	

TOWN OF HERNDON, VIRGINIA

Exhibit B-13

PROPRIETARY FUND TYPE
 SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
 DOWNTOWN PARKING ENTERPRISE FUND
 Year Ended June 30, 2012

	Final Budget	Actual	Variance Over (Under)
Operating revenues:			
Miscellaneous	\$ 12,700	\$ 26,903	\$ 14,203
Total operating revenues	12,700	26,903	14,203
Operating expenses:			
Downtown parking	25,150	24,721	(429)
Depreciation and amortization	-	4,752	4,752
Total operating expenses	25,150	29,473	4,323
Operating loss	(12,450)	(2,570)	9,880
Nonoperating revenues:			
Investment earnings	17,200	13,003	(4,197)
Total nonoperating revenues	17,200	13,003	(4,197)
Income before transfers	4,750	10,433	5,683
Transfers in	200,000	200,000	-
Change in net assets	\$ 204,750	210,433	\$ 5,683
Total net assets, July 1		1,511,972	
Total net assets, June 30		\$ 1,722,405	



TOWN OF HERNDON, VIRGINIA
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STATISTICAL SECTION



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STATISTICAL SECTION

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The statistical section of the town's comprehensive annual financial report presents detailed information as a context for understanding what the information presented in the financial statements, note disclosures and required supplementary information says about the town's overall financial health. This information has not been audited by the independent auditor.

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Financial Trends These tables contain trend information to help the reader understand how the town's financial performance and well being have changed over time.	1 - 5
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Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the relevant year. The town implemented GASB 34 in fiscal year 2003; tables presenting government-wide information include information beginning in that year.

TOWN OF HERNDON, VIRGINIA

Table 1

**NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested in capital assets, net of related debt	\$ 19,789,543	\$ 21,919,935	\$ 27,816,034	\$ 31,719,000	\$ 72,076,117	\$ 72,923,937	\$ 72,604,103	\$ 72,888,823	\$ 71,869,483	\$ 70,770,618
Restricted	-	1,169,431	1,193,044	1,215,485	1,244,028	1,268,979	1,298,335	1,331,216	-	-
Unrestricted	18,602,317	19,823,629	12,107,024	12,131,044	11,575,112	11,780,466	11,187,939	11,136,298	12,710,197	13,453,945
Total governmental activities net assets	\$ 38,391,860	\$ 42,912,995	\$ 41,116,102	\$ 45,065,529	\$ 84,895,257	\$ 85,973,382	\$ 85,090,377	\$ 85,356,337	\$ 84,579,680	\$ 84,224,563
Business-type activities:										
Invested in capital assets, net of related debt	\$ 12,891,883	\$ 14,423,535	\$ 15,086,244	\$ 15,722,161	\$ 16,466,974	\$ 16,308,652	\$ 15,947,667	\$ 14,723,720	\$ 15,029,325	\$ 14,333,960
Unrestricted	18,071,402	17,562,414	16,955,114	15,966,544	14,919,283	14,205,592	13,837,158	15,190,726	14,896,236	15,810,683
Total business-type activities net assets	\$ 30,963,285	\$ 31,985,949	\$ 32,041,358	\$ 31,688,705	\$ 31,386,257	\$ 30,514,244	\$ 29,784,825	\$ 29,914,446	\$ 29,925,561	\$ 30,144,643
Primary government:										
Invested in capital assets, net of related debt	\$ 32,681,426	\$ 36,343,470	\$ 42,902,278	\$ 47,441,161	\$ 88,543,091	\$ 89,232,589	\$ 88,551,770	\$ 87,612,543	\$ 86,898,808	\$ 85,104,578
Restricted	-	1,169,431	1,193,044	1,215,485	1,244,028	1,268,979	1,298,335	1,331,216	-	-
Unrestricted	36,673,719	37,386,043	29,062,138	28,097,588	26,494,395	25,986,058	25,025,097	26,327,024	27,606,433	29,264,628
Total primary government net assets	\$ 69,355,145	\$ 74,898,944	\$ 73,157,460	\$ 76,754,234	\$ 116,281,514	\$ 116,487,626	\$ 114,875,202	\$ 115,270,783	\$ 114,505,241	\$ 114,369,206

Notes:

(1) Beginning in fiscal year 2007, all infrastructure capital assets acquired before 2003 were recorded.

(2) Beginning in fiscal year 2011, the town reclassified the Cemetery Perpetual Care Fund to unrestricted.

TOWN OF HERNDON, VIRGINIA

Table 2
Page 1

**CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses:										
Governmental activities:										
Legislative	\$ 304,842	\$ 334,582	\$ 588,708	\$ 599,013	\$ 664,636	\$ 685,284	\$ 654,002	\$ 633,438	\$ 623,912	\$ 583,204
Administration	2,660,288	2,742,074	2,666,678	2,991,781	2,911,464	2,945,108	3,226,320	2,164,235	2,259,326	2,644,089
Town attorney	304,244	326,181	352,556	415,156	393,808	461,394	519,437	532,305	587,992	475,518
Parks and recreation	3,234,276	3,382,361	3,467,051	3,665,259	4,350,958	4,462,531	4,658,971	4,310,670	4,363,722	4,359,512
Finance	997,701	1,030,116	1,087,203	1,165,622	1,191,893	1,307,331	1,348,980	1,288,960	1,215,584	1,291,803
Community development	1,141,547	1,112,704	1,341,611	1,539,821	1,735,596	1,652,196	1,950,546	2,353,844	2,346,085	2,138,936
Police	6,102,460	6,576,514	6,868,424	7,887,728	8,460,046	8,759,234	9,257,315	9,009,339	8,548,326	8,834,312
Public works	6,347,374	6,022,510	7,988,506	7,606,343	10,363,763	11,278,365	11,229,645	10,817,176	10,493,058	11,861,291
Grants	17,301	95,391	79,212	-	-	-	-	-	-	-
Interest	564,173	698,104	826,972	904,816	940,449	875,509	813,800	765,523	807,330	938,843
Total governmental activities	21,674,206	22,320,537	25,266,921	26,775,539	31,012,613	32,426,952	33,659,016	31,875,490	31,245,335	33,127,508
Business-type activities:										
Water and sewer	5,446,337	5,340,723	5,873,518	6,135,079	6,756,592	6,692,754	6,836,413	6,615,960	6,715,723	7,173,978
Golf course	1,212,946	1,352,730	1,332,748	1,464,539	1,398,081	1,564,081	1,530,464	1,561,787	1,476,713	1,531,506
Chestnut Grove cemetery	314,938	343,509	382,021	448,989	442,171	652,781	704,690	714,927	698,361	686,962
Downtown parking	35,867	38,571	40,750	129,847	79,465	278,725	65,844	44,814	77,374	29,473
Total business-type activities	7,010,088	7,075,533	7,629,037	8,178,454	8,676,309	9,188,341	9,137,411	8,937,488	8,968,171	9,421,919
Total government expenses	28,684,294	29,396,070	32,895,958	34,953,993	39,688,922	41,615,293	42,796,427	40,812,978	40,213,506	42,549,427
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	21,989	30,518	40,281	33,874	36,634	46,447	20,650	12,827	28,242	20,573
Parks and recreation	1,944,943	1,938,317	1,991,640	2,019,553	2,198,645	2,394,257	2,551,346	2,720,621	2,848,308	2,837,304
Finance	293,440	293,700	302,510	366,100	382,570	401,700	421,790	442,880	465,020	488,270
Police	502,942	742,418	461,538	475,407	555,217	509,890	579,682	544,060	543,607	583,820
Public works	538,366	475,311	568,194	470,699	546,176	398,234	466,595	495,331	498,571	421,503
Operating grants and contributions:										
Legislative	21,640	3,227	1,906	-	-	-	-	-	-	-
Administration	133,408	136,774	144,634	197,563	174,757	177,155	195,616	112,141	114,732	29,348
Community development	750	2,500	-	-	638	451	-	130,958	87,289	129,380
Police	672,372	815,365	851,697	1,084,006	1,089,540	916,457	1,045,779	954,847	898,306	707,317
Public works	603,569	494,368	1,193,149	1,068,463	940,045	1,896,712	739,287	1,097,785	864,727	806,055
Capital grants and contributions:										
Parks and recreation	36,500	-	-	-	-	-	-	-	-	-
Police	-	-	-	-	-	-	-	-	5,000	-
Public works	582,819	3,366,370	1,645,937	3,381,970	11,715,486	1,013,922	1,164,938	1,645,234	1,233,410	2,570,040
Total governmental activities program revenue	5,352,738	8,298,868	7,201,486	9,097,635	17,639,708	7,755,225	7,185,683	8,156,684	7,587,212	8,593,610

TOWN OF HERNDON, VIRGINIA

Table 2
Page 2

**CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS (1)
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 4,067,454	\$ 3,983,922	\$ 3,956,967	\$ 4,301,639	\$ 4,418,419	\$ 4,509,547	\$ 4,378,611	\$ 5,022,814	\$ 5,372,350	\$ 5,815,824
Golf course	1,227,548	1,381,100	1,289,877	1,236,010	1,395,824	1,501,835	1,469,522	1,396,993	1,279,442	1,419,051
Chestnut Grove cemetery	225,950	245,340	326,241	418,563	507,959	406,729	536,054	568,783	596,106	639,107
Operating grants and contributions:										
Water and sewer	719,784	1,533,682	845,013	719,489	449,735	523,025	519,711	644,817	555,893	391,965
Downtown parking	496,942	-	-	-	-	-	-	-	-	-
Capital grants and contributions:										
Water and sewer	225,557	465,844	380,857	553,422	308,341	41,500	75,420	78,291	314,121	50,512
Downtown parking	-	113,889	-	-	-	-	-	-	-	-
Total business-type activities program revenues	6,963,235	7,723,777	6,798,955	7,229,123	7,080,278	6,982,636	6,979,318	7,711,698	8,117,912	8,316,459
Total government program revenues	12,315,973	16,022,645	14,000,441	16,326,758	24,719,986	14,737,861	14,165,001	15,868,382	15,705,124	16,910,069
Net (expense) revenue:										
Governmental activities	(16,321,468)	(14,021,669)	(18,065,435)	(17,677,904)	(13,372,905)	(24,671,727)	(26,473,333)	(23,718,806)	(23,658,123)	(24,533,898)
Business-type activities	(46,853)	648,244	(830,082)	(949,331)	(1,596,031)	(2,205,705)	(2,158,093)	(1,225,790)	(850,259)	(1,105,460)
Total government net expense	(16,368,321)	(13,373,425)	(18,895,517)	(18,627,235)	(14,968,936)	(26,877,432)	(28,631,426)	(24,944,596)	(24,508,382)	(25,639,358)
General revenues and other changes in net assets:										
Governmental activities:										
Taxes:										
General property	7,253,312	7,445,745	7,749,706	8,666,348	10,457,592	11,395,778	11,305,328	10,417,959	9,117,669	9,484,072
Business license	2,604,530	2,652,045	3,045,781	2,707,012	3,179,323	3,260,125	3,458,908	3,395,732	3,788,311	3,928,098
Transient occupancy	1,616,609	1,846,065	2,127,742	2,414,308	2,465,479	2,678,892	2,493,698	2,202,096	2,212,811	2,235,969
Local sales	1,463,396	1,580,307	1,647,228	1,580,278	1,639,448	1,661,725	1,511,792	1,413,606	1,488,959	1,601,032
Meals	-	900,279	1,010,412	1,077,313	1,169,591	1,167,976	1,103,744	1,086,649	1,154,577	1,991,460
Other local taxes	2,500,249	2,785,736	3,414,504	4,024,553	3,880,153	3,944,832	3,785,126	4,013,468	2,317,896	2,264,521
Revenues not restricted to specific programs	37,532	38,652	77,343	70,136	77,624	84,118	89,937	92,844	193,634	-
Intergovernmental, non-categorical aid	109,578	162,315	117,177	120,770	135,559	63,070	42,626	29,026	1,827,856	1,790,631
Use of money and property	1,162,054	226,418	682,330	866,575	1,402,972	1,332,543	1,406,066	1,216,859	725,320	899,551
Miscellaneous	74,859	98,297	72,595	84,178	11,828	190,623	439,355	144,995	64,412	201,030
Gain on sale of capital assets	-	840,518	1,530	1,900	19,573	52,309	-	-	-	-
Transfers	(548,544)	(33,573)	(26,526)	13,960	(63,158)	(82,139)	(46,252)	(28,468)	(9,979)	(217,583)
Total governmental activities	16,273,575	18,542,804	19,919,822	21,627,331	24,375,984	25,749,852	25,590,328	23,984,766	22,881,466	24,178,781

TOWN OF HERNDON, VIRGINIA

**CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General revenues and other changes in net assets: (Continued)										
Business-type activities:										
Use of money and property	\$ 1,287,919	\$ 50,658	\$ 549,990	\$ 286,132	\$ 966,969	\$ 969,476	\$ 1,014,947	\$ 835,100	\$ 291,614	\$ 547,645
Miscellaneous	256,217	290,189	308,975	324,506	263,456	282,077	367,475	491,843	559,781	559,314
Transfers	548,544	33,573	26,526	(13,960)	63,158	82,139	46,252	28,468	9,979	217,583
Total business-type activities	2,092,680	374,420	885,491	596,678	1,293,583	1,333,692	1,428,674	1,355,411	861,374	1,324,542
Total primary government	18,366,255	18,917,224	20,805,313	22,224,009	25,669,567	27,083,544	27,019,002	25,340,177	23,742,840	25,503,323
Changes in net assets:										
Governmental activities	(47,893)	4,521,135	1,854,387	3,949,427	11,003,079	1,078,125	(883,005)	265,960	(776,657)	(355,117)
Business-type activities	2,045,827	1,022,664	55,409	(352,653)	(302,448)	(872,013)	(729,419)	129,621	11,115	219,082
Total primary government	\$ 1,997,934	\$ 5,543,799	\$ 1,909,796	\$ 3,596,774	\$ 10,700,631	\$ 206,112	\$ (1,612,424)	\$ 395,581	\$ (765,542)	\$ (136,035)

Note:

(1) Net (expense) revenue is the difference between the expenses and program revenues. This difference indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in a parentheses are net expenses indicating that expenses were greater than program revenues, and the revenues were needed to finance that function or program. Numbers without parentheses are net revenues, demonstrating that program revenues were more than sufficient to cover expenses.

TOWN OF HERNDON, VIRGINIA

Table 3

**PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

Function / Program	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Legislative	\$ 21,640	\$ 3,227	\$ 1,906	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administration	155,397	167,292	184,915	231,437	211,391	223,602	216,266	124,968	142,974	49,921
Parks and recreation	1,981,443	1,938,317	1,991,640	2,019,553	2,198,645	2,394,257	2,551,346	2,720,621	2,848,308	2,837,304
Finance	293,440	293,700	302,510	366,100	382,570	401,700	421,790	442,880	465,020	488,270
Community development	750	2,500	-	-	638	451	-	130,958	87,289	129,380
Police	1,175,314	1,557,783	1,313,235	1,559,413	1,644,757	1,426,347	1,625,461	1,498,907	1,446,913	1,291,137
Public works	1,724,754	4,336,049	3,407,280	4,921,132	13,201,707	3,308,868	2,370,820	3,238,350	2,596,708	3,797,598
Total governmental activities	5,352,738	8,298,868	7,201,486	9,097,635	17,639,708	7,755,225	7,185,683	8,156,684	7,587,212	8,593,610
Business-type activities:										
Water and sewer	5,012,795	5,983,448	5,182,837	5,574,550	5,176,495	5,074,072	4,973,742	5,745,922	6,242,364	6,258,301
Golf course	1,227,548	1,381,100	1,289,877	1,236,010	1,395,824	1,501,835	1,469,522	1,396,993	1,279,442	1,419,051
Chestnut Grove cemetery	225,950	245,340	326,241	418,563	507,959	406,729	536,054	568,783	596,106	639,107
Downtown parking	496,942	113,889	-	-	-	-	-	-	-	-
Total business-type activities	6,963,235	7,723,777	6,798,955	7,229,123	7,080,278	6,982,636	6,979,318	7,711,698	8,117,912	8,316,459
Total government	\$ 12,315,973	\$ 16,022,645	\$ 14,000,441	\$ 16,326,758	\$ 24,719,986	\$ 14,737,861	\$ 14,165,001	\$ 15,868,382	\$ 15,705,124	\$ 16,910,069

Note:

(1) In years 2004 through 2012, the public works department received donated assets of \$2,877,947, \$895,362, \$2,854,521, \$10,904,769, \$215,931, \$169,792, \$738,713, \$251,315, and \$484,901, respectively, which is included in revenue above.

TOWN OF HERNDON, VIRGINIA

Table 4

**FUND BALANCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(unaudited)**

	Fiscal Year June 30,				
	2003	2004	2005	2006	2007
General Fund:					
Nonspendable	\$ 856,022	\$ 802,986	\$ 843,829	\$ 810,834	\$ 777,549
Assigned	798,149	1,487,926	1,330,781	1,542,828	1,514,448
Unassigned	6,552,305	5,804,224	5,439,713	5,032,926	5,505,291
Total General Fund	\$ 8,206,476	\$ 8,095,136	\$ 7,614,323	\$ 7,386,588	\$ 7,797,288
All Other Governmental Funds:					
Committed	\$ 1,152,711	\$ 1,169,431	\$ 1,193,044	\$ 1,215,485	\$ 1,244,028
Assigned	7,290,122	9,339,216	6,102,071	6,776,899	5,560,103
Total all other governmental funds	\$ 8,442,833	\$ 10,508,647	\$ 7,295,115	\$ 7,992,384	\$ 6,804,131

	Fiscal Year June 30,				
	2008	2009	2010	2011	2012
General Fund:					
Nonspendable	\$ 668,306	\$ 696,928	\$ 521,699	\$ 465,104	\$ 437,038
Committed	-	-	-	-	200,000
Assigned	2,076,810	1,547,148	1,330,286	1,447,107	1,275,540
Unassigned	5,065,689	5,572,879	5,830,035	6,269,345	6,899,792
Total General Fund	\$ 7,810,805	\$ 7,816,955	\$ 7,682,020	\$ 8,181,556	\$ 8,812,370
All Other Governmental Funds:					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 400
Committed	1,268,979	1,298,335	1,331,216	1,364,493	1,401,996
Assigned	6,132,528	6,283,685	8,714,791	9,094,285	9,073,286
Total all other governmental funds	\$ 7,401,507	\$ 7,582,020	\$ 10,046,007	\$ 10,458,778	\$ 10,475,682

Note:

(1) In fiscal year 2011, the Town adopted GASB 54 which changed fund balance classifications. Fiscal year 2003 - fiscal year 2010 are restated to reflect the new classifications.

TOWN OF HERNDON, VIRGINIA

Table 5

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
General property taxes	\$ 7,387,014	\$ 7,125,043	\$ 7,775,583	\$ 8,702,956	\$ 10,441,826	\$ 11,415,226	\$ 11,315,372	\$ 10,397,197	\$ 9,121,061	\$ 9,469,904
Other local taxes	8,189,445	9,771,887	11,257,001	11,803,464	12,333,994	12,713,550	12,353,268	12,111,551	10,962,554	12,021,080
Permits, privilege fees and regulatory licenses	474,108	386,609	479,470	388,028	442,686	285,090	361,280	398,453	394,406	307,471
Fines and forfeitures	488,167	492,125	449,833	471,902	571,830	571,998	593,631	546,486	525,648	586,607
Use of money and property	1,162,054	226,418	682,330	866,575	1,402,972	1,332,543	1,406,066	1,216,859	725,320	899,551
Charges for services	2,360,862	2,382,639	2,493,173	2,563,109	2,769,747	2,999,216	3,158,288	3,344,974	3,540,621	3,553,684
Miscellaneous	74,859	95,030	75,862	84,178	11,828	190,623	318,482	122,619	45,613	173,216
Intergovernmental	2,160,636	2,102,972	3,300,434	2,998,623	3,151,292	3,751,795	3,017,100	3,036,075	4,914,716	5,601,971
Total revenues	22,297,145	22,582,723	26,513,686	27,878,835	31,126,175	33,260,041	32,523,487	31,174,214	30,229,939	32,613,484
Expenditures:										
Legislative	299,493	329,467	581,659	605,038	659,583	660,310	651,245	621,490	621,830	574,002
Administration	2,108,961	2,230,922	2,181,253	2,373,380	2,463,940	2,621,611	2,443,752	1,794,756	1,875,307	2,039,372
Town attorney	301,253	321,597	350,048	415,617	390,529	455,322	522,946	533,800	580,099	465,714
Parks and recreation	2,923,457	3,075,665	3,141,800	3,353,890	3,628,248	3,922,569	3,896,866	3,588,867	3,637,139	3,615,552
Finance	954,516	962,466	1,022,423	1,137,903	1,177,062	1,263,648	1,291,102	1,237,706	1,159,375	1,236,659
Community development	1,059,962	1,083,711	1,269,554	1,479,769	1,679,530	1,647,157	1,853,933	2,258,153	2,060,965	2,069,278
Police	6,006,019	6,255,393	6,588,415	7,209,795	7,787,327	8,426,430	8,662,952	8,605,850	8,164,952	8,829,067
Public works	6,396,481	6,358,797	7,139,428	7,452,737	8,132,036	8,281,419	9,049,695	9,071,074	8,460,778	8,534,908
Grants	17,301	95,391	79,212	241,986	213,168	70,741	169,494	112,375	56,077	52,544
Capital outlay	4,098,657	8,519,502	5,493,994	6,078,124	3,630,995	2,452,376	1,354,695	1,713,889	1,117,577	2,313,599
Debt service:										
Principal	1,454,515	1,146,425	1,481,312	1,676,313	1,649,242	1,936,694	1,714,623	1,804,517	1,755,837	1,458,640
Interest and fiscal charges	567,388	666,283	853,937	902,549	969,521	881,041	800,142	808,155	838,530	695,817
Total expenditures	26,188,003	31,045,619	30,183,035	32,927,101	32,381,181	32,619,318	32,411,445	32,150,632	30,328,466	31,885,152
Excess of revenues over (under) expenditures	(3,890,858)	(8,462,896)	(3,669,349)	(5,048,266)	(1,255,006)	640,723	112,042	(976,418)	(98,527)	728,332
Other financing sources (uses):										
Transfers in	4,930,651	2,107,506	3,598,613	1,216,293	1,508,043	1,424,483	551,856	1,255,981	755,777	666,003
Transfers out	(5,479,195)	(2,141,079)	(3,625,139)	(1,202,333)	(1,571,201)	(1,506,622)	(598,108)	(1,284,449)	(765,756)	(883,586)
Issuance of debt	-	8,500,000	-	5,490,000	500,000	-	-	3,240,000	902,500	97,500
Proceeds of refunding bonds	-	-	-	-	-	-	-	-	1,766,365	4,999,000
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	(1,760,506)	(4,986,906)
Premium (discount) on issuance debt	-	(70,800)	-	(4,368)	21,038	-	-	71,562	92,459	-
Proceeds from sale of property	-	2,021,743	1,530	18,208	19,573	52,309	120,873	22,376	19,995	27,375
Total other financing sources (uses), net	(548,544)	10,417,370	(24,996)	5,517,800	477,453	(29,830)	74,621	3,305,470	1,010,834	(80,614)
Net changes in fund balances	\$ (4,439,402)	\$ 1,954,474	\$ (3,694,345)	\$ 469,534	\$ (777,553)	\$ 610,893	\$ 186,663	\$ 2,329,052	\$ 912,307	\$ 647,718

Debt service as a percentage of
noncapital expenditures:

Total debt service	\$	2,021,903	\$	1,812,708	\$	2,335,249	\$	2,578,862	\$	2,618,763	\$	2,817,735	\$	2,514,765	\$	2,612,672	\$	2,594,367	\$	2,154,457
Total expenditures	\$	26,188,003	\$	31,045,619	\$	30,183,035	\$	32,927,101	\$	32,381,181	\$	32,619,318	\$	32,411,445	\$	32,150,632	\$	30,328,466	\$	31,885,152
Less: capital outlay		(4,712,916)		(9,233,499)		(5,241,256)		(6,484,548)		(2,909,600)		(1,721,592)		(1,236,989)		(2,115,568)		(920,817)		(1,325,046)
Noncapital expenditures	\$	21,475,087	\$	21,812,120	\$	24,941,779	\$	26,442,553	\$	29,471,581	\$	30,897,726	\$	31,174,456	\$	30,035,064	\$	29,407,649	\$	30,560,106
Debt service as a percentage of noncapital expenditures		9.42%		8.31%		9.36%		9.75%		8.89%		9.12%		8.07%		8.70%		8.82%		7.05%

TOWN OF HERNDON, VIRGINIA

Table 6

**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

Fiscal Year June 30,	General Property Including Interest and Penalty (1)	Business License	Transient Occupancy (2)	Local Sales	Meals (3)	Cigarette (4)	Motor Vehicle	Consumer Utility and Consumption (5)	Mobile Tele- Communications (6)	5% Communications Sales and Use (7)	Other (8)	Total
2003	\$ 7,387,014	\$ 2,604,530	\$ 1,616,609	\$ 1,463,396	\$ -	\$ 190,656	\$ 310,585	\$ 1,437,118	\$ -	\$ -	\$ 566,551	\$ 15,576,459
2004	7,125,043	2,659,595	1,846,065	1,580,307	900,279	292,796	319,290	1,583,480	-	-	583,307	16,890,162
2005	7,775,583	3,055,880	2,127,742	1,647,228	1,010,412	276,565	317,489	1,711,601	337,634	-	772,450	19,032,584
2006	8,702,956	2,707,012	2,414,308	1,580,278	1,077,313	373,152	318,846	1,787,691	650,991	-	893,873	20,506,420
2007	10,441,826	3,179,323	2,465,479	1,639,448	1,169,591	352,223	288,512	1,327,411	316,404	847,892	747,711	22,775,820
2008	11,415,226	3,260,125	2,678,892	1,661,725	1,167,976	322,660	271,605	877,394	-	1,928,078	545,095	24,128,776
2009	11,315,372	3,458,908	2,493,698	1,511,792	1,103,744	307,047	285,356	878,034	-	1,796,554	518,135	23,668,640
2010	10,397,197	3,395,732	2,202,096	1,413,606	1,086,649	293,592	290,313	899,685	-	1,853,246	676,632	22,508,748
2011	9,121,061	3,788,311	2,212,811	1,488,959	1,154,577	390,163	373,933	884,483	-	-	669,317	20,083,615
2012	9,469,904	3,928,098	2,235,969	1,601,032	1,991,460	364,975	386,712	882,544	-	-	630,290	21,490,984
Change 2003-2012	28.20%	50.82%	38.31%	9.41%	100.00%	91.43%	24.51%	-38.59%	0.00%	0.00%	11.25%	37.97%

Source: Town records.

Notes:

- (1) Town's real property assessments have increased 28 percent from 2003 to 2012. However, the town's real estate tax rate decreased over the past ten years from \$0.30 per \$100 of assessed value (AV) to \$0.2650 per \$100 AV.
- (2) Over the past ten years, three new hotels were opened within the town's corporate limits.
- (3) Town adopted a meals tax, at a rate of 1.5 percent, which became effective July 1, 2004. Rate was increased to 2.5 percent effective July 1, 2011.
- (4) Cigarette tax rate was increased from \$0.20 to \$0.35 per pack effective for fiscal years 2004 and 2005; from \$0.35 to \$0.50 per pack effective for fiscal years 2006 thru 2010; and from \$0.50 to \$0.75 per pack effective for fiscal years 2011 and 2012.
- (5) Increase in consumer utility tax collections for fiscal years 2003 through 2006 corresponds with increase in residential housing units and commercial office space built during the past ten years. The consumer utility tax on telecommunication services was eliminated effective January 1, 2007 and replaced by the State 5 percent communications sales and use tax. (see Note 7)
- (6) Town adopted a mobile telecommunications (cell phone) tax which became effective December 1, 2004. The mobile telecommunications (cell phone) tax was eliminated effective January 1, 2007 and replaced by the State 5 percent communications sales and use tax. (see Note 7)
- (7) State communications sales and use tax became effective January 1, 2007. This tax replaced three locally assessed town taxes which are the consumer utility tax on telecommunication services, the mobile telecommunications (cell phone) tax and the 5 percent portion of the town's cable TV franchise fee. Beginning in fiscal year 2011, this tax is now accounted for as state intergovernmental revenue.
- (8) Includes right of way use fees, bank stock taxes and cable franchise fees.

TOWN OF HERNDON, VIRGINIA

Table 7

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Residential Property	Commercial Property	Public Service Corporation	Nontaxable	Total Assessed Value	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Assessed Value
2003	\$ 1,127,008,710	\$ 1,171,150,920	\$ 153,766,905	\$ 89,287,195	\$ 2,541,213,730	\$ 2,451,926,535	8.84%	\$ 0.3000	\$ 2,451,926,535	100.00%
2004	1,285,769,310	1,089,621,980	158,205,107	94,944,650	2,628,541,047	2,533,596,397	3.33%	0.2800	2,533,596,397	100.00%
2005	1,458,102,379	1,167,782,655	141,520,282	100,362,250	2,867,767,566	2,767,405,316	9.23%	0.2800	2,767,405,316	100.00%
2006	1,924,855,719	1,417,144,440	138,361,962	115,928,125	3,596,290,246	3,480,362,121	25.76%	0.2500	3,480,362,121	100.00%
2007	2,417,778,953	1,801,437,496	187,449,426	148,854,355	4,555,520,230	4,406,665,875	26.62%	0.2400	4,406,665,875	100.00%
2008	2,478,870,750	2,118,458,610	152,834,703	148,854,355	4,899,018,418	4,750,164,063	7.79%	0.2400	4,750,164,063	100.00%
2009	2,370,955,949	2,212,843,650	145,578,271	235,205,540	4,964,583,410	4,729,377,870	(0.44)%	0.2400	4,729,377,870	100.00%
2010	1,679,450,917	2,174,409,910	148,261,544	222,736,840	4,224,859,211	4,002,122,371	(15.38)%	0.2600	4,002,122,371	100.00%
2011	1,596,786,795	1,684,423,215	137,947,036	202,647,500	3,621,804,546	3,419,157,046	(14.57)%	0.2675	3,419,157,046	100.00%
2012	1,708,496,320	1,747,193,177	134,258,362	204,073,885	3,794,021,744	3,589,947,859	5.00%	0.2650	3,589,947,859	100.00%

Sources:

Town of Herndon Department of Finance

County of Fairfax Department of Tax Administration (Real Estate Division)

Notes:

- (1) Increases in assessments from 2003 through 2008 correspond to rapid increases in residential and commercial values, coupled with extensive residential and commercial building construction, which began in 1999.
- (2) Declines in assessments noted for 2009 through 2011, especially in the residential sector, reflect the recent downward reassessment trend in the metropolitan Washington DC housing market.

TOWN OF HERNDON, VIRGINIA

Table 8

**DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Tax Rates - Town		Tax Rates - County		Tax Rates - Combined	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2003	\$ 0.3000	\$ -	\$ 1.2100	\$ 4.5700	\$ 1.5100	\$ 4.5700
2004	0.2800	-	1.1600	4.5700	1.4400	4.5700
2005	0.2800	-	1.1300	4.5700	1.4100	4.5700
2006	0.2500	-	1.0000	4.5700	1.2500	4.5700
2007	0.2400	-	0.8900	4.5700	1.1300	4.5700
2008	0.2400	-	0.8900	4.5700	1.1300	4.5700
2009	0.2400	-	0.9200	4.5700	1.1600	4.5700
2010	0.2600	-	1.0400	4.5700	1.3000	4.5700
2011	0.2675	-	1.0900	4.5700	1.3575	4.5700
2012	0.2650	-	1.0750	4.5700	1.3400	4.5700

Notes:

(1) These rates are per \$100 of assessed value for real estate and personal property.

(2) A town assessed levy on personal property ceased in fiscal year 1989.

TOWN OF HERNDON, VIRGINIA

Table 9

PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
BP New Dominion Technology	\$ 82,460,930	1	2.30 %	\$ -	-	-
New Dominion	72,669,990	2	2.02	-	-	-
Worldgate Centre Owner LLC	64,230,160	3	1.79	-	-	-
Westqr-Worldgate LLC	58,080,930	4	1.62	-	-	-
Realty Associates	55,471,290	5	1.55	-	-	-
AC/MRP Monument III Associates LLC	55,202,360	6	1.54	-	-	-
EQR Herndon LLC	48,255,230	7	1.34	-	-	-
Washington Real Estate Investment Trust	45,167,480	8	1.26	-	-	-
MIVIOP LLC	45,013,530	9	1.25	-	-	-
CLF Herndon LLC	36,612,230	10	1.02	-	-	-
Caleast Industrial	-	-	-	53,048,340	1	2.16 %
WGP Associates LLC	-	-	-	51,348,430	2	2.09
Federal National Mortgage Assoc.	-	-	-	44,069,850	3	1.80
Worldgate Centre Owner LLC	-	-	-	40,311,835	4	1.64
Monument Four LLC	-	-	-	39,469,470	5	1.61
New Dominion Technology Park	-	-	-	37,640,800	6	1.54
Northwest Federal	-	-	-	34,865,005	7	1.42
First Herndon Assoc Limited	-	-	-	31,976,485	8	1.30
Dwoskin, Albert J. Tr.	-	-	-	29,060,045	9	1.19
HMH Properties Inc.	-	-	-	29,395,800	10	1.20
Total	\$ 563,164,130		15.69 %	\$ 391,186,060		15.95 %

Sources:

Town of Herndon Department of Finance.

County of Fairfax Department of Tax Administration (Real Estate Division).

TOWN OF HERNDON, VIRGINIA

Table 10

**REAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Taxes Levied for the Fiscal Year (1)	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 7,355,780	\$ 7,281,586	98.99%	\$ 74,194	\$ 7,355,780	100.00%
2004	7,094,070	7,035,248	99.17%	58,822	7,094,070	100.00%
2005	7,748,735	7,707,990	99.47%	40,745	7,748,735	100.00%
2006	8,700,905	8,650,854	99.42%	50,051	8,700,905	100.00%
2007	10,466,159	10,398,449	99.35%	67,705	10,466,154	100.00%
2008	11,033,590	10,982,504	99.54%	50,091	11,032,595	99.99%
2009	11,001,119	10,961,629	99.64%	37,339	10,998,968	99.98%
2010	10,019,464	9,970,734	99.51%	42,754	10,013,488	99.94%
2011	8,709,325	8,657,610	99.41%	35,315	8,692,925	99.81%
2012	9,160,086	9,104,251	99.39%	NA	9,104,251	99.39%

Source:

Town of Herndon Finance Department.

Note:

(1) Abatements and supplements which relate to prior years are recorded as revenue collections (or refunds) in year of receipt. Records do not exist which separate current fiscal year levy collections from prior tax year abatements and supplements.

TOWN OF HERNDON, VIRGINIA

Table 11

**RATIOS OF OUTSTANDING DEBT BY TYPE AND GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Per Capita Personal Income	Debt Per Capita	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	General Bonded Debt Outstanding
	General Obligation Bonds	Capital Leases and Notes	Revenue Bonds				General Obligation Bonds		Debt Per Capita
2003	\$ 12,514,596	\$ 38,899	\$ 1,915,404	\$ 14,468,899	1.22%	\$ 642	\$ 12,514,596	0.51%	\$ 555
2004	19,907,070	-	1,842,929	21,749,999	1.78%	964	19,907,070	0.79%	882
2005	18,425,758	-	1,764,242	20,190,000	1.52%	887	18,425,758	0.67%	809
2006	21,714,445	525,000	1,685,555	23,925,000	1.68%	1,051	21,714,445	0.62%	941
2007	20,565,203	525,000	3,364,797	24,455,000	1.66%	1,053	20,565,203	0.47%	886
2008	18,793,509	360,000	3,221,491	22,375,000	1.41%	958	18,793,509	0.40%	804
2009	17,243,886	195,000	3,076,114	20,515,000	1.23%	874	17,243,886	0.36%	735
2010	18,009,369	865,000	3,420,631	22,295,000	1.32%	949	18,009,369	0.45%	766
2011	16,259,391	1,767,500	3,230,609	21,257,500	1.34%	900	16,259,391	0.48%	688
2012	15,234,751	1,730,000	3,044,249	20,009,000	1.31%	849	15,234,751	0.42%	647

Notes:

- (1) Details regarding the town's outstanding debt may be found in the notes to the basic financial statements.
- (2) Population and personal income data can be found in table 15.
- (3) See table 7 for property value data.

TOWN OF HERNDON, VIRGINIA

Table 12

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
YEAR ENDED JUNE 30, 2012
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Fairfax County, Virginia	\$ 2,017,435,000	1.7744%	\$ 35,796,361
Town Direct Debt			<u>16,964,751</u>
Total direct and overlapping debt			<u><u>\$ 52,761,112</u></u>

Sources:

(1) Town of Herndon Department of Finance and County of Fairfax Finance Department

(2) Town of Herndon percentage of overlapping debt based on Real Estate assessed values of each respective entity.

TOWN OF HERNDON, VIRGINIA

Table 13

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)**

	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 229,815,963	\$ 237,539,129	\$ 262,588,503	\$ 334,200,016	\$ 421,921,645	\$ 459,732,936	\$ 458,379,960	\$ 385,386,083	\$ 328,121,001	\$ 345,568,950
Total net debt applicable to limit	<u>12,514,596</u>	<u>19,907,070</u>	<u>18,425,758</u>	<u>22,239,445</u>	<u>21,090,203</u>	<u>19,153,509</u>	<u>17,438,886</u>	<u>18,874,369</u>	<u>18,026,891</u>	<u>16,964,751</u>
Available legal debt margin	<u>\$ 217,301,367</u>	<u>\$ 217,632,059</u>	<u>\$ 244,162,745</u>	<u>\$ 311,960,571</u>	<u>\$ 400,831,442</u>	<u>\$ 440,579,427</u>	<u>\$ 440,941,074</u>	<u>\$ 366,511,714</u>	<u>\$ 310,094,110</u>	<u>\$ 328,604,199</u>
Total net debt applicable to the limit as a percentage of debt limit	5.45%	8.38%	7.02%	6.65%	5.00%	4.17%	3.80%	4.90%	5.49%	4.91%

Legal Debt Margin Calculation for Fiscal Year 2012

Summary of Outstanding Debt:

Assessed value of real estate	<u>\$ 3,455,689,497</u>	2002 refunding bonds	\$ 1,030,000
Debt limit (10% of assessed value)	\$ 345,568,950	2003 taxable general obligation bonds	1,205,000
Debt applicable to limit:		2005 general obligation bonds	3,785,000
Net direct debt outstanding	<u>16,964,751</u>	2006 general obligation bonds	411,505
		2010 general obligation bonds	2,204,850
		2010 refunding bonds	1,599,396
		2012 refunding bonds	4,999,000
Available legal debt margin	<u>\$ 328,604,199</u>	2009 fifteen-year note	1,630,000
		2010 twenty-year note	100,000
			<u>\$ 16,964,751</u>

Notes:

- (1) Net direct debt excludes debt service on general obligation bond issues in the Golf Course and the Chestnut Grove Cemetery Funds.
- (2) Under the Constitution of Virginia, the town may not issue bonds in excess of 10% of assessed valuation. Self-supporting debt is not included in this calculation.

TOWN OF HERNDON, VIRGINIA

Table 14

**BOND COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)**

Golf Course Fund							
Fiscal Year June 30,	Service Charges	Operating Expenses	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2003	\$ 1,395,379	\$ 931,056	\$ 464,323	\$ 266,221	\$ 58,770	\$ 324,991	1.43
2004	1,471,822	1,136,972	334,850	45,959	52,632	98,591	3.40
2005	1,357,237	1,074,976	282,261	49,900	51,069	100,969	2.80
2006	1,293,184	1,181,895	111,289	49,899	49,323	99,222	1.12
2007	1,464,100	1,134,362	329,738	51,212	47,527	98,739	3.34
2008	1,576,985	1,303,023	273,962	53,838	45,632	99,470	2.75
2009	1,518,889	1,270,943	247,946	55,152	43,559	98,711	2.51
2010	1,512,540	1,306,977	205,563	59,091	41,353	100,444	2.05
2011	1,369,871	1,188,595	181,276	87,059	59,284	146,343	1.24
2012	1,496,295	1,252,292	244,003	83,044	46,623	129,667	1.88

Chestnut Grove Cemetery Fund							
Fiscal Year June 30,	Service Charges	Operating Expenses	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2003	\$ 332,862	\$ 238,965	\$ 93,897	\$ 25,758	\$ 31,189	\$ 56,947	1.65
2004	310,216	264,399	45,817	26,515	30,364	56,879	0.81
2005	474,525	300,663	173,862	28,788	29,463	58,251	2.98
2006	469,000	369,329	99,671	28,788	28,455	57,243	1.74
2007	606,799	353,710	253,089	29,546	27,419	56,965	4.44
2008	472,053	415,793	56,260	89,468	106,669	196,137	0.29
2009	573,029	447,881	125,148	90,225	104,730	194,955	0.64
2010	616,522	466,123	150,399	96,392	101,412	197,804	0.76
2011	635,207	459,127	176,080	107,104	99,529	206,633	0.85
2012	686,149	475,324	210,825	103,316	89,108	192,424	1.10

Notes:

- (1) Utility service charges includes all revenues of the fund except gains on sale of capital assets.
- (2) Operating expenses are exclusive of depreciation and amortization, interest expense and losses on sale of capital assets.
- (3) The bonds for the Chestnut Grove Cemetery Fund were issued in fiscal years 2001 and 2007 with the first principal payments due in fiscal years 2002 and 2008, respectively.
- (4) The bonds for the Chestnut Grove Cemetery Fund and the Golf Course Fund issued in fiscal year 2001 were refunded in fiscal year 2011. The last principal payment for the refunded bonds and the first principal payment for the refunding bonds were made in fiscal year 2011.

TOWN OF HERNDON, VIRGINIA

Table 15

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Population	Personal Income (000's)	Per Capita Personal Income	School Enrollment	Unemployment Rates (%)
	(1)	(2)	(2)	(3)	(4)
2003	22,542	\$ 1,183,320	\$ 52,494	161,385	3.4
2004	22,564	1,222,224	54,167	163,286	3.1
2005	22,765	1,326,425	58,266	164,195	2.7
2006	23,087	1,428,139	61,859	164,408	2.5
2007	23,217	1,476,114	63,579	164,284	2.2
2008	23,367	1,581,736	67,691	166,307	3.2
2009	23,476	1,662,617	70,822	169,538	4.8
2010	23,496	1,691,289	71,982	169,538	5.1
2011	23,620	1,584,760	67,094	172,391	4.9
2012	23,556	1,522,589	64,637	177,918	4.2

Sources:

- (1) Town of Herndon, Community Development.
- (2) Fairfax County Department of Systems Management for Human Services, U. S. Census Bureau's American Community Survey.
- (3) Fairfax County Public Schools, Office of Finance.
- (4) Virginia Employment Commission, Annual Unemployment Statistics (not seasonally adjusted). Rate is for Fairfax County as of June 30 of the fiscal year.

TOWN OF HERNDON, VIRGINIA

Table 16

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Employer	2012 Employment Range	2003 Employment Range
Booz Allen Hamilton, Inc.	Over 500	-
Score Association	Over 500	-
Exelis Inc.	249-499	-
Northwest Federal Credit Union	249-499	-
Rei Systems	249-499	-
The Boeing Company	249-499	-
Worldgate Sport & Health Club	249-499	-
Air Line Pilots Association	100-250	-
Medical Transportation Services	100-250	-
Parsons Brinckerhoff, Inc.	100-250	-
Airbus Industries of N. America	-	Over 200
Computer Associates	-	Over 200
Global One	-	Over 200
Logicon	-	Over 200
Northwest Federal Credit Union	-	Over 200
Oracle Corporation	-	Over 200
PSINet	-	Over 200
Sallie Mae	-	Over 200
Science Applications Int. Corporation	-	Over 200
Town of Herndon	-	Over 200

Sources:

Fairfax County Economic Development Authority.

Virginia Employment Commission.

Town of Herndon, Community Development and Finance Departments.

TOWN OF HERNDON, VIRGINIA

Table 17

**FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Legislative	3.6	3.4	3.6	3.6	3.8	4.1	4.0	4.0	4.0	4.0
Administration:										
Public information (1)	N/A	0.9	1.0	0.8	1.7	1.5	1.5	1.5	1.5	1.5
Town manager	2.0	2.0	2.0	2.0	1.7	2.0	2.0	2.0	2.0	2.0
Human resources	3.5	3.4	3.3	4.3	3.5	3.4	3.3	3.5	3.5	3.4
Information services	6.0	6.0	5.9	6.2	5.9	6.1	6.0	5.7	5.3	6.0
Neighborhood resources (2)	4.1	4.2	4.9	5.3	3.9	4.7	3.5	-	-	-
Town attorney	2.4	2.7	2.8	2.8	2.9	2.8	3.0	2.6	2.6	2.8
Parks and recreation:										
Administration (4)	4.4	4.6	5.5	5.5	4.7	5.5	4.6	3.9	4.2	4.6
Recreation programs (4)	16.4	16.2	15.8	15.9	19.5	20.1	19.3	17.7	16.9	15.3
Community center operations	13.4	13.7	12.9	11.9	12.3	15.9	17.0	15.4	16.2	16.6
Aquatics programs and operations	12.9	13.5	13.1	13.5	11.6	12.9	13.6	13.4	13.3	13.7
Park operation and development	2.0	1.9	2.0	2.3	1.6	1.9	1.1	1.2	1.4	1.3
Finance:										
Administration	2.0	2.0	2.0	2.0	1.4	1.8	2.0	2.0	2.0	2.0
Billing and accounting	5.0	4.6	4.6	4.8	4.6	5.0	5.0	5.0	5.0	5.0
Revenue	3.0	3.0	2.6	3.0	3.4	4.6	3.8	3.2	2.8	2.8
Procurement	1.0	1.0	1.0	0.4	1.0	1.0	1.0	1.0	1.0	1.0
Community development (2)	15.8	16.9	17.2	19.9	21.0	20.3	21.5	22.0	22.3	21.5
Police:										
Field operations (3), (4)	47.0	50.8	48.5	50.5	51.3	46.1	45.6	45.4	44.1	49.9
Support services (4)	25.2	24.4	24.0	23.5	25.1	32.0	33.7	35.0	33.9	29.8
Public works:										
Administration (4)	5.5	6.1	6.9	7.1	6.2	8.2	8.2	8.1	6.1	6.9
Engineering	3.8	4.8	3.9	3.8	4.2	4.6	5.0	5.0	5.0	5.0
Program management	3.9	2.3	3.2	3.1	3.0	2.0	2.8	3.0	3.0	3.0
Building inspections (4)	3.9	4.5	5.0	4.4	4.5	5.2	5.2	4.8	4.0	4.9
Building maintenance	6.8	6.4	6.7	7.0	8.2	8.0	8.3	8.4	8.3	8.4
Grounds maintenance (4)	10.6	11.5	10.5	10.4	10.1	10.1	10.4	10.5	7.8	9.0
Street maintenance	8.5	8.8	8.6	8.2	7.0	7.3	10.3	8.8	10.3	8.7
Refuse/recycling	16.7	15.9	16.3	17.1	17.9	18.1	17.4	16.9	17.0	16.6
Vehicle and equipment replacement	10.2	10.2	10.4	10.2	10.5	9.9	10.1	10.5	10.3	9.2
Traffic engineering	2.4	3.3	4.8	4.0	3.8	3.8	3.8	3.5	3.1	3.0
Right-of-way inspections	3.2	3.0	3.2	3.1	3.1	3.0	3.1	3.2	3.1	3.1

Water and Sewer:										
Customer service	3.0	3.8	3.1	2.9	3.3	2.0	3.7	3.8	3.8	3.9
Sewer service and maintenance	5.3	5.0	5.1	6.8	6.3	6.2	5.6	6.4	5.7	3.3
Water supply and maintenance	5.6	5.4	5.3	5.3	5.7	7.1	6.4	6.7	5.6	8.1
Golf Course:										
Maintenance	8.9	10.2	9.2	8.3	8.6	8.4	8.1	7.6	7.2	7.2
Clubhouse	5.1	5.7	5.8	6.0	5.9	6.2	6.3	6.0	5.7	5.8
Chestnut Grove Cemetery:										
Administration	2.9	4.3	4.2	4.5	4.4	5.1	4.9	5.0	4.9	5.0
Total	276.1	286.1	285.3	290.4	293.4	306.9	311.0	302.5	292.9	294.4

Source:

Town of Herndon, Finance Department

Notes:

- (1) Prior to 2004, public information activities were contracted out to a local public relations firm.
- (2) As part of the fiscal year 2010 budget, Neighborhood Resources division was transferred from Administration to Community Development.
- (3) Due to increasing town population, additional police positions were added in 2003 and 2004.
- (4) Due to economic recession, starting in fiscal year 2010 several positions in the larger departments were either "frozen" or, in some cases, eliminated.

TOWN OF HERNDON, VIRGINIA

Table 18

**OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Calls for service	33,300	34,100	33,800	33,100	35,000	35,600	33,800	27,700	28,100	27,700
Administration:										
Number of recruitments	74	69	95	78	86	158	93	78	105	89
Building safety:										
Total building permits	278	546	661	685	361	310	168	342	308	247
Total inspections performed	3,304	3,200	5,352	3,628	3,864	3,628	3,766	3,446	3,421	2,928
Public service:										
Refuse collected (tons)	7,071	6,368	6,380	6,704	6,362	5,817	5,655	5,868	5,948	5,860
Recycle collected (residential - tons)	1,886	1,407	1,345	1,340	1,879	1,737	1,427	1,473	1,501	1,518
Parks and Recreation:										
Recreation program attendance	16,412	15,555	18,909	15,841	14,900	15,875	16,703	17,842	17,368	16,954
Herndon Festival attendance	77,000	48,000	83,000	82,000	79,000	85,000	83,000	79,000	82,000	69,000
Water and sewer:										
New utility accounts	111	130	246	72	26	30	24	10	50	78
Average daily water consumption (mgd)	2.29	2.38	2.42	2.39	2.52	2.42	2.30	2.09	2.14	2.22
Average daily sewage treatment (mgd)	3.61	2.78	2.77	2.58	2.48	2.39	2.40	2.58	2.49	2.64
Golf Course:										
Rounds played (18 and 9 hole)	35,388	38,303	34,718	31,017	33,705	34,940	32,781	32,110	30,098	33,435
Cemetery:										
Sites sold	154	150	216	164	164	139	147	184	163	204
Interments performed	134	122	139	140	144	102	133	174	117	138

Sources:

Town of Herndon Town Manager's Annual Reports for fiscal years 2003 through 2012.
 Town of Herndon Adopted Annual Budgets for fiscal years 2003 through 2012.
 Town of Herndon Department of Public Works.
 Town of Herndon Police Department.

TOWN OF HERNDON, VIRGINIA

Table 19

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	Fiscal Year June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	25	27	28	31	33	35	38	39	39	42
Refuse Collection:										
Collection trucks	7	7	8	8	8	8	8	9	9	9
Other public works:										
Vehicles/equipment maintained	365	367	369	370	372	374	374	375	374	375
Streets:										
Primary (miles)	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	31.3
Secondary (miles)	96.8	96.9	98.1	98.1	98.1	98.1	98.1	98.1	98.1	98.4
Parks & Recreation:										
Parks - number of acres	96.0	96.0	96.0	97.0	97.0	97.0	97.0	97.0	97.0	97.0
Swimming pools	1	1	1	1	1	1	1	1	1	1
Parks with playground equipment	6	6	6	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
Water:										
Water lines (miles)	82.0	83.0	85.0	87.0	88.0	88.7	88.7	89.3	89.3	89.3
Storage capacity (million gallons)	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Wastewater:										
Sanitary sewers (miles)	76.0	77.0	78.0	80.0	80.8	81.3	81.3	81.8	81.8	81.8

Sources:

- Town of Herndon Town Manager's Annual Reports for fiscal years 2003 through 2012.
- Town of Herndon Adopted Annual Budgets for fiscal years 2003 through 2012.
- Town of Herndon Department of Public Works.



TOWN OF HERNDON, VIRGINIA
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COMPLIANCE SECTION



TOWN OF HERNDON, VIRGINIA
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TOWN OF HERNDON, VIRGINIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

Federal Grantor/State Pass-Through Grantor/ Program Title	Pass-through Entity Identification Number	Federal CFDA Number	Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<u>Pass-through payments:</u>			
<u>Office of Community Planning and Development:</u>			
Community Development Block Grants	Not Provided	14.218	<u>89,380</u>
Total Department of Housing and Urban Development			<u>89,380</u>
DEPARTMENT OF JUSTICE, OFFICE OF JUSTICE PROGRAMS, BUREAU OF JUSTICE ASSISTANCE:			
<u>Direct payments:</u>			
<u>Bureau of Justice Assistance:</u>			
Bulletproof Vest Partnership Program		16.607	4,656
<u>Pass-through payments:</u>			
<u>Office of Juvenile Justice and Delinquency Prevention:</u>			
Youth Gang Prevention	2003-JD-FX-0003	16.544	96,722
<u>Department of Justice:</u>			
ARRA - Internet Crimes Against Children Task Force Program	2009-SN-B9-K011	16.800	<u>17,094</u>
Total Department of Justice, Office of Justice Programs, Bureau of Justice Assistance			<u>118,472</u>
DEPARTMENT OF TRANSPORTATION:			
<u>Pass-through payments:</u>			
<u>VA Department of Transportation:</u>			
ARRA - Highway Infrastructure Investment	EN03-235-121	20.205	866,818
Highway Planning and Construction	U000-235-544,N501	20.205	125,804
<u>VA Department of Motor Vehicles:</u>			
State and Community Highway Safety	SC- 2011-51232-4174	20.600	17,269
Selective Enforcement	154AL-2012-520824-4460	20.607	<u>22,872</u>
Total Department of Transportation			<u>1,032,763</u>
Total Federal Awards Expended			<u><u>\$ 1,240,615</u></u>

See Note to Schedule of Expenditures of Federal Awards.

TOWN OF HERNDON, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Significant Accounting Policies

Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Herndon, Virginia and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Nonmonetary deferral assistance including food commodities is considered federal assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule of Expenditures of Federal Awards.

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule of Expenditures of Federal Awards.

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for the town were determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

Note 2. Relationship to the Basic Financial Statements

For fiscal year 2012, the town recognized amounts in the Schedule of Expenditures of Federal Awards (SEFA) associated with prior year expenditures. Expenditures should be recognized in the fiscal year spent for reporting purposes. In the current fiscal year, \$13,642 of prior year expenditures related to the ARRA-Highway Infrastructure Investment Grant (CFDA #20.205) were included in the SEFA. The Highway Infrastructure Investment Grant expenditures were not included in the prior year SEFA due to the town's failure to properly record the expenditures in the prior year. The expenditures had been incurred and reported in the town's financial statements but were not reflected in the prior year SEFA. As a result of this omission, the town included the expenditures in the current year SEFA.



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of Council
Town of Herndon, Virginia
Herndon, Virginia

We have audited the financial statements of the Town of Herndon, Virginia, (town) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

Management of the town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the town'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the town's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control and 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'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 and specifications was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the town in a separate letter dated November 19, 2012.

This report is intended solely for the information and use of Town Council, management, the Auditor of Public Accounts, and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia
November 19, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of Council
Town of Herndon, Virginia
Herndon, Virginia

Compliance

We have audited the compliance of the Town of Herndon, Virginia (town) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the town's management. Our responsibility is to express an opinion on the town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the town's compliance with those requirements.

In our opinion, the town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Town Council, management, the Auditor of Public Accounts, and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia
November 19, 2012

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	<u> </u> Yes	<u> √ </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> √ </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> √ </u> No

Federal awards

Internal control over major program:

Material weaknesses identified?	<u> </u> Yes	<u> √ </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> √ </u> None Reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> </u> Yes	<u> √ </u> No
--	-------------------	-----------------

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.205	ARRA - Highway Infrastructure Investment

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee?	<u> √ </u> Yes	<u> </u> No
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II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

TOWN OF HERNDON, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audits' Summary Schedule of Prior Audit Findings.



TOWN OF HERNDON, VIRGINIA
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