

**NORTHERN SHENANDOAH VALLEY
REGIONAL COMMISSION**

**AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

**DUNHAM, AUKAMP & RHODES, PLC
Certified Public Accountants
Chantilly, Virginia**

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John R. Riley, Jr., Vice Chairman
Nora Belle Comer, Secretary/Treasurer

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June 30, 2013

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EXECUTIVE DIRECTOR

Martha Shickle

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

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Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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Chantilly, VA 20151

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Northern Shenandoah Valley Regional Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northern Shenandoah Valley Regional Commission as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the Northern Shenandoah Valley Regional Commission as of June 30, 2013 and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 6 and page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northern Shenandoah Valley Regional Commission's financial statements. The accompanying schedule of revenues and expenses by project is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The schedule of revenues and expenses by project and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013, on our consideration of the Northern Shenandoah Valley Regional Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Shenandoah Valley Regional Commission's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Debra A. Rhodes, CPA". The signature is fluid and cursive, with the initials "CPA" written in a larger, more stylized font at the end.

Certified Public Accountants
Chantilly, Virginia

November 21, 2013

Management's Discussion and Analysis

This section of the Northern Shenandoah Valley Regional Commission's annual financial report presents our discussion and analysis of the Commission's financial performance during the fiscal year that ended June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the Commission's financial statements, which follow this section.

Overview of the Financial Statements

Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the Commission's finances. Within this view, Commission operations are categorized and reported as either governmental or business-type activities. Governmental activities include planning services and administration. The Commission's business-type activities include the Regional Tire Operations Program, a regional tire shredding program. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the Commission.

Required Financial Statements

The Statement of Net Assets (Page 7) focuses on resources available for future operations. In simple terms, this statement presents a snap shot view of the assets the Commission has, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Government activities are reported on the accrual basis of accounting. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

Total governmental net assets from July 2012 to June 2013 increased by \$50,534 as a result of more efficient budgeting and revenue and expense monitoring throughout the year. Staff was able to more closely monitor the status of projects' budgets and assure appropriate staff members were assigned to projects for which revenue was available

The Statement of Activities (Page 8) focuses on gross and net costs of the Commission's programs and the extent to which such programs rely upon general revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues. The Commission incurred program expenses totaling \$1,402,049 and billed for services in the amount of \$1,280,365. The difference between these totals represents grant matching funds required and indirect costs which are supported by the Department of Housing & Community Development annual planning district support and member jurisdiction contributions.

Total fiscal year expenses decreased \$337,249 from last fiscal year, and revenues derived from charges for services decreased in the amount of \$436,887. The significant fluctuations in revenues and expenses this year is due to a reduction in pass through services contracts with partner agencies. The regions Community Development Programs were not as active as in previous years.

Fund financial statements (Pages 9–13) focus separately on governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. Statements for the Commission's proprietary fund follow the governmental funds and include statements of net assets; revenue, expenditures and changes in net assets; and cash flow.

The notes to the financial statements provide additional disclosure required by governmental accounting standards and provide information to assist the reader in understanding the Commission's financial condition. The MD&A is intended to explain the significant changes in financial position and the differences in operation between the current year and prior years.

Financial Analysis

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Current Assets	\$385,843	\$642,396	\$ 776,523	\$ 699,972
Capital Assets (net)	<u>96,807</u>	<u>97,184</u>	<u>238,109</u>	<u>326,555</u>
Total Assets	<u>482,650</u>	<u>739,580</u>	<u>1,014,632</u>	<u>1,026,527</u>
Current Liabilities	91,601	340,839	9,232	9,232
Long-Term Liabilities	<u>59,250</u>	<u>117,476</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>150,851</u>	<u>458,315</u>	<u>9,232</u>	<u>9,232</u>
Invested in Capital Assets	37,557	33,059	238,109	326,555
Unrestricted	<u>294,242</u>	<u>248,206</u>	<u>767,291</u>	<u>690,740</u>
Total Net Assets	<u>\$331,799</u>	<u>\$281,265</u>	<u>\$1,005,400</u>	<u>\$1,017,295</u>

Current governmental assets for the year increased as a result of the current year revenues in excess of expenses of \$50,534.

Total net assets for the business-type activities; show a decrease of \$11,895.

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Revenues				
Operating grants and contributions	\$ 201,863	\$ 184,617	\$ -	\$ -
Charges for services	1,285,238	1,717,252	104,874	151,826
Interest	<u>316</u>	<u>84</u>	<u>3,260</u>	<u>2,507</u>
Total Revenues	<u>\$1,487,417</u>	<u>\$1,901,953</u>	<u>\$108,134</u>	<u>\$154,333</u>
Expenses				
General and administration	\$ 34,834	\$ 25,704	\$120,029	\$174,203
Project costs	<u>1,402,049</u>	<u>1,748,428</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,436,883</u>	<u>1,774,132</u>	<u>120,029</u>	<u>174,203</u>
Change in net assets	<u>\$ 50,534</u>	<u>\$ 127,821</u>	<u>\$(11,895)</u>	<u>\$(19,870)</u>

Charges for services under business-type activities decreased by approximately \$46,952 over last year, while project expenses decreased approximately \$54,174. The Regional Tire Operations Program experienced less demand for regional tire disposal in fiscal year 2013 and the decrease in expenses was related to the reduction in operations.

Capital Assets

Capital assets in the governmental funds consist of building, furniture and equipment used in the governmental activities of the Commission.

Included in proprietary fund fixed assets is a tire shredder and related equipment used to shred and recycle discarded tires, and a glass grinding machine which sold subsequent to year end.

Debt

The cost associated with preparing the office location on Kendrick Lane for occupancy included construction and buildout which is secured by a loan with the property owner at no interest and payable at a fixed monthly amount of \$375 over the life of the lease period.

Economic Factors and Future Outlook

In July of 2012, the Commission purchased new financial management software to replace Quickbooks. This new software, GMS (Grants Management Software) provides a floating indirect cost allocation rate element which will allow for actual expense recovery reimbursements. In prior years the Commission has utilized the audited indirect cost rates published at the end of each fiscal year as the fixed rate for all invoicing generated in the new fiscal year. Implementing the new GMS software will provide a positive significant impact on the financial position of the Commission.

Contacting the Commission's Financial Management Staff

This financial report is designed to provide a general overview of the Commission's finances and show the Commission's accountability for the funds it receives. If you have questions about this report or need additional information, contact the Commission's Executive Director at 400 Kendrick Lane – Suite E, Front Royal, Virginia 22630. (540) 636-8800.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 234,886	\$ 245,171	\$ 480,057
Certificates of deposit	-	492,301	492,301
Accounts receivable	140,945	39,051	179,996
Prepaid expenses	10,012	-	10,012
Capital assets, net	96,807	238,109	334,916
Total Assets	482,650	1,014,632	1,497,282
LIABILITIES			
Accounts payable	58,434	-	58,434
Accrued salary and leave	33,167	-	33,167
Deferred revenue	-	9,232	9,232
Loan payable	59,250	-	59,250
Total Liabilities	150,851	9,232	160,083
NET ASSETS			
Investment in capital assets, net of related debt	37,557	238,109	275,666
Unrestricted	294,242	767,291	1,061,533
Total Net Assets	331,799	1,005,400	1,337,199
Total Liabilities and Net Assets	\$ 482,650	\$ 1,014,632	\$ 1,497,282

See accompanying notes.

**NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund
ASSETS	
Cash and investments	\$ 234,886
Accounts receivable	140,945
Prepaid expenses	10,012
Total Assets	385,843
 LIABILITIES	
Accounts payable	58,434
Total Liabilities	58,434
 FUND BALANCE	
Unreserved, reported in:	
General fund	327,409
Total Fund Balance	327,409
Total Liabilities and Fund Balance	\$ 385,843

Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets:

Fund balances - total governmental funds	\$ 327,409
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	1,005,400
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds	(92,417)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	96,807
Net Assets of Governmental Activities	\$ 1,337,199

See accompanying notes.

**NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

REVENUE	
Grants and appropriations:	
Federal grants	\$ 863,140
State grants and appropriations	267,481
Local grants and appropriations	341,558
Other revenue:	
Interest	316
Miscellaneous	14,922
TOTAL REVENUES	<u>1,487,417</u>
 EXPENDITURES	
Current Operating:	
Contract services	589,414
Salaries	469,335
Employee benefits and payroll taxes	154,772
Advertising	84,636
Rent	18,000
Travel	17,838
Computer costs	15,034
Professional fees	13,352
Dues and memberships	11,701
Capital outlay	10,409
Office equipment and repair	9,786
Equipment rental	8,715
Regional meetings	7,627
Insurance	7,429
Office supplies and expense	6,292
Utilities	6,121
Communications	5,247
Other costs	2,796
Debt Service	
Principal	4,875
TOTAL EXPENDITURES	<u>1,443,379</u>
NET CHANGE IN FUND BALANCE	44,038
FUND BALANCE - Beginning of year	<u>283,371</u>
FUND BALANCE - End of year	<u>\$ 327,409</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes
Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net Change in Fund Balances - Total Government Funds	\$ 44,038
The net revenue (expense) of internal service funds is reported with governmental activities on the statement of activities.	(11,895)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds - change in long-term annual leave payable.	1,998
Loan proceeds provide current financial resources to governmental funds, while the repayment of principal on debt is an expenditure in the governmental funds. Neither transaction, however, has an effect on net assets. This is the amount by which debt payments exceeds debt issued.	4,875
All capital outlays to purchase capital assets are reported in governmental funds as expenditures. However, for governmental activities those outlays are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expense in the Statement of Activities. This is the amount by which capital outlays exceed depreciation in the period.	<u>(377)</u>
Change in net assets reported on the Statement of Activity	<u>\$ 38,639</u>

See accompanying notes.

**NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2013**

Business Type Activities - Enterprise Funds

	Regional Tire Operations Program	Glass Grinding Operations Program	Total Enterprise Funds
ASSETS			
Cash and investments	\$ 245,171	\$ -	\$ 245,171
Certificates of deposit	492,301	-	492,301
Accounts receivable	39,051	-	39,051
Capital assets, net	201,037	37,072	238,109
Total Assets	977,560	37,072	1,014,632
LIABILITIES			
Deferred revenue	9,232	-	9,232
Total Liabilities	9,232	-	9,232
NET ASSETS			
Investment in capital assets, net of related debt	201,037	37,072	238,109
Unrestricted	767,291	-	767,291
Total Fund Balance	968,328	37,072	1,005,400
Total Liabilities and Fund Balance	\$ 977,560	\$ 37,072	\$ 1,014,632

See accompanying notes.

**NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Business Type Activities - Enterprise Funds</u>		
	Regional Tire Operations Program	Glass Grinding Operations Program	Total Enterprise Funds
Revenue			
Charges for service	\$ 104,874	\$ -	\$ 104,874
Total Operating Revenue	<u>104,874</u>	<u>-</u>	<u>104,874</u>
Operating Expenses			
Operating costs	31,583	-	31,583
Depreciation	73,106	15,340	88,446
Total Operating Expenses	<u>104,689</u>	<u>15,340</u>	<u>120,029</u>
Operating Income (loss)	<u>185</u>	<u>(15,340)</u>	<u>(15,155)</u>
Non-Operating Revenues (Expenses)			
Interest income	3,260	-	3,260
Total Non-Operating Revenues (Expenses)	<u>3,260</u>	<u>-</u>	<u>3,260</u>
Change in Net Assets	3,445	(15,340)	(11,895)
Net Assets - Beginning of Year	<u>964,883</u>	<u>52,412</u>	<u>1,017,295</u>
Net Assets - End of Year	<u>\$ 968,328</u>	<u>\$ 37,072</u>	<u>\$ 1,005,400</u>

See accompanying notes.

**NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Business Type Activities - Enterprise Funds</u>		
	Regional Tire Operations Program	Glass Grinding Operations Program	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from customers	\$ 74,700	\$ -	\$ 74,700
Cash payments to suppliers	(31,583)	-	(31,583)
	<hr/>		
Net Cash Provided by Operating Activities	43,117	-	43,117
<hr/>			
Cash flows from investing activities			
Purchases of certificates of deposit	(3,060)	-	(3,060)
Interest income	3,260	-	3,260
	<hr/>		
Net Cash Provided by Investing Activities	200	-	200
<hr/>			
Change in Cash and Cash Equivalents	43,317	-	43,317
<hr/>			
Cash and Cash Equivalents - Beginning of Year	201,854	-	201,854
<hr/>			
Cash and Cash Equivalents - End of Year	\$ 245,171	\$ -	\$ 245,171
<hr/> <hr/>			
Reconciliation of Operating Income			
to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 185	\$ (15,340)	\$ (15,155)
Adjustments to Reconcile Operating Income			
to Net Cash Provided by Operating Activities:			
Depreciation	73,106	15,340	88,446
Change in accounts receivable	(30,174)	-	(30,174)
	<hr/>		
Net Cash Provided by Operating Activities	\$ 43,117	\$ -	\$ 43,117
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See accompanying notes.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Organization and Summary of Accounting Policies

The Northern Shenandoah Valley Regional Commission (the "Commission") is a political subdivision of the Commonwealth of Virginia. The purpose of the Commission is to promote the orderly and efficient development of the physical, social and economic elements of the Northern Shenandoah Valley by encouraging and assisting governmental subdivisions in planning for the future. The accounting policies of the Commission conform to generally accepted accounting principals as applied to government units.

- (a). Financial Statement Presentation - The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities. The governmental activities of the Commission are supported by intergovernmental revenues.

The government-wide Statement of Net Assets reports assets as restricted when externally imposed constraints on those assets are in effect. Internally imposed designations are not presented as restricted net assets.

The government-wide Statement of Activities is designed to report the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate fund financial statements are provided for governmental funds and proprietary funds. The governmental funds and the proprietary funds are reported on separate balance sheets and statements of revenues, expenditures, and changes in fund balances (fund equity). The proprietary fund reporting also includes a statement of cash flows. The accounts are organized on the basis of fund classification, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. The various funds are grouped in the financial statements as follows:

Governmental Funds account for the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The individual Governmental Fund of the Commission is comprised of the General Fund, which accounts for all revenues and expenditures applicable to the general operation of the Commission that are not accounted for in other funds.

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Commission's Proprietary Fund consists of Enterprise Funds that accounts for the operations of the Regional Tire Operations Program and Glass Grinding Operations Program. The Commission is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict Government Accounting Standards Board (GASB) pronouncements. The Commission has chosen not to apply any FASB pronouncements after that date.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - Organization and Summary of Accounting Policies (Continued)

- (b). Basis of Accounting - The Commission's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. Under the accrual method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period, generally sixty days. The Commission considers grant revenue as available when the grant expenditure is made since the expenditure is the prime factor for determining eligibility. Expenditures are recorded when the related fund liability is incurred.
- (c). Property and Equipment - Property and equipment are recorded at cost for items exceeding \$1,000. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from five to thirty-nine years. Normal repairs and maintenance are expensed as incurred. Assets that have been purchased with grantor funds may revert to the grantor in the event the program is discontinued.
- (d). Cash and Cash Equivalents - The Commission follows a deposit and investment policy in accordance with statutes of the Commonwealth of Virginia. Accordingly, the Commission is authorized to hold cash, checking accounts and certain investments. Cash and Cash Equivalents include cash on hand, amounts in checking accounts and money market instruments, all of which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act. For purposes of the statement of cash flows, all highly liquid debt investments with a maturity of three months or less when purchased are considered to be cash equivalents.
- (e). Accounts receivable are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. Management considers all of the receivables collectible at June 30, 2013, and no allowance for doubtful accounts has been provided.
- (f). Revenue Recognition - Intergovernmental revenues, consisting primarily of Federal, state, local and other grants for the purpose of funding specific expenditures, are recognized when earned. The Commission recognizes a liability for funds received in excess of project expenditures.
- (g). Accrued Leave - Commission employees are granted vacation and sick leave in varying amounts. In the event of termination, the employee is reimbursed for accumulated vacation leave. Sick leave and vacation expenditures are recognized in the governmental fund to the extent it is paid during the year.
- (h). Use of Estimates - The presentation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - Organization and Summary of Accounting Policies (Continued)

- (i). Concentration of Credit and Market Risk - Financial instruments that potentially expose the Commission to concentration of credit and market risk consist primarily of cash equivalents and certificates of deposit. Cash equivalents are maintained at high-quality financial institutions, and credit exposure is limited to any one institution. The Commission maintains its cash in various bank deposits accounts which, at times, may exceed federally insured limits. The Commission has not experienced any losses in such accounts. The Commission's investments do not represent significant concentrations of market risk inasmuch as their investment portfolio is adequately diversified among issuers.
- (j). Advertising Costs - Advertising costs are expensed as incurred.

NOTE 2 - Cash and Equivalents

State statute authorizes the Commission to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, repurchase agreements, certificates of deposit or time deposits insured by the FDIC, and the local government investment pool. Cash and cash equivalents include amounts in demand deposits as well as short-term, highly liquid investments with a maturity date within three months of the date acquired by the Commission. Deposits are carried at cost, which approximates fair value. At yearend, the carrying value of the governmental activities' money market and checking account balances were \$135,797 and \$98,889 respectively, and the business-type activities checking account balance was \$245,171.

There is no custodial credit risk to these accounts, as the entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FSLIC limits. The State Treasury Board is responsible for monitoring compliance by banks and savings and loans. Accordingly, there is no custodial risk for either of the accounts as they are fully collateralized. In addition there is no interest rate risk as the interest rates are adjusted daily.

NOTE 3 - Certificates of Deposit

The fair values, which are the amounts reported in the statement of financial position, are based on level 1 inputs, quoted market prices, if available, or estimated using quoted market prices for similar securities.

Investments as of June 30, 2013 stated at fair value consist of the following:

Certificates of deposit	<u>\$492,301</u>
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Components of investment income include the following:

Interest	<u>\$3,576</u>
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NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - Capital Assets

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities:				
Building	\$ 88,466	\$ -	\$ -	\$ 88,466
Vehicles and Equipment	59,676	10,409	-	70,085
Less: Accumulated Depreciation	<u>50,958</u>	<u>10,786</u>	<u>-</u>	<u>61,744</u>
Governmental Activities Capital Assets, net	<u>\$ 97,184</u>	<u>\$ (377)</u>	<u>\$ -</u>	<u>\$ 96,807</u>
Business-Type Activities:				
Equipment	\$967,488	\$ -	\$ -	\$967,488
Less: Accumulated Depreciation	<u>640,933</u>	<u>88,446</u>	<u>-</u>	<u>729,379</u>
Business-Type Activities Capital Assets, net	<u>\$326,555</u>	<u>\$(88,446)</u>	<u>\$ -</u>	<u>\$238,109</u>

NOTE 5 - Notes Payable

On September 26, 2011 the Commission signed a lease for new office space. That lease included a provision whereby the landlord financed certain improvements to the office to be paid back in monthly installments of \$375 over the life of the lease.

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

	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u>
Note Payable	<u>\$64,125</u>	<u>\$ -</u>	<u>\$4,875</u>	<u>\$59,250</u>

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - Retirement Plan

The Commission contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. The plan is administered by the Virginia Retirement System (System).

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 (VRS)

All full-time, salaried permanent (professional) 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 were vested as of July 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - Retirement Plan (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00% under Plan 2, the COLA cannot exceed 3.00%. 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 (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy – Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees, employers were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Commission's contribution rate for the fiscal year ended 2013 was 8.46% of annual covered payroll. The contribution rate for the life benefit was 1.19%.

Annual Pension Cost - For the fiscal year ended June 30, 2013 the Commission's annual pension cost of \$38,205 for VRS was equal to the required and actual contributions.

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/13	\$38,205	100%	\$-
6/30/12	\$49,415	100%	\$-
6/30/11	\$47,121	100%	\$-

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Commission's assets is equal to the modified market value of the 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 Commission's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period for the June 30, 2011 for the Unfunded Actuarial Accrued liability (UAAL) was 29 years.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - Retirement Plan (Continued)

Funded Status and Funding Progress - As of June 30, 2012, the most recent actuarial valuation date, the plan was 95.25% funded. The actuarial accrued liability for benefits was \$850,679, and the actuarial value of assets was \$810,234, resulting in an unfunded actuarial accrued liability (UAAL) of \$40,445. The covered payroll (annual payroll of active employees covered by the plan) was \$396,718, and the ratio of the UAAL to the covered payroll was 10.19%.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UUAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/12	\$823,329	\$914,198	\$ 90,869	90.06%	\$402,718	22.56%
6/30/11	\$810,234	\$850,679	\$ 40,455	95.25%	\$396,718	10.19%
6/30/10	\$800,584	\$954,366	\$153,782	83.89%	\$445,850	34.49%

NOTE 7 - Long-Term Obligations

The Commission leases office space in Front Royal, Virginia, under a fifteen-year lease agreement, which expires September 30, 2026. The lease calls for periodic rent increases over the lease term. Rental expense for all operating leases for the year ended June 30, 2013, was \$18,000.

Future minimum rental payments under these leases are as follows:

Years ending June 30,	
2014	\$ 20,250
2015	21,000
2016	21,000
2017	23,250
2018	24,000
Thereafter	<u>234,000</u>
Total minimum lease payments	<u>\$367,500</u>

NOTE 8 - Compliance with Grant Provisions

The Commission participates in several federal financial assistance programs. Although the Commission's grant programs have been audited in accordance with the provisions of the Single Audit Act, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the Commission expects such amounts, if any, to be immaterial.

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - Fringe Benefit Allocation

Fringe benefit expense is allocated using the percentage of benefits to total salaries. The fringe benefit rate for the fiscal year ended June 30, 2013 is calculated as follows:

Fringe benefit expense	<u>\$154,772</u>	
Total salaries	\$469,335	= 32.98%

Components of fringe benefit expense for the year ended June 30, 2012 are shown below:

Health, disability and life insurance	\$ 81,267
Retirement	38,205
Payroll taxes	<u>35,300</u>
Total Fringe Benefits	<u>\$154,772</u>

NOTE 11 - Indirect Costs

Indirect costs, which support all projects, are allocated based on the ratio of the individual project's direct salaries and fringe benefits to total direct salaries and fringe benefits. The indirect cost rate for the fiscal year ended June 30, 2013 was calculated as follows:

Indirect costs	<u>\$244,507</u>	
Total direct salaries and fringe benefits	\$502,902	= 48.62%

The following indirect costs have been allocated to projects:

Salaries and fringe benefits	\$140,425
Rent	18,000
Contract services	12,088
Computer services	11,336
Depreciation	10,786
Repairs and maintenance	9,501
Travel	8,344
Meetings and conferences	6,825
Utilities	6,121
Insurance	5,315
Office supplies	4,826
Dues and subscriptions	4,529
Communications	3,501
Miscellaneous	1,253
Advertising	892
Postage	670
Depreciation	<u>95</u>
Total Indirect Costs	<u>\$244,507</u>

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 – Evaluation of Subsequent Events

The Commission has evaluated subsequent events through November 21, 2013, the date which the financial statements were available to be issued.

	<u>Commission Activities</u>	<u>Local Technical Assistance</u>	<u>EDA Page County</u>	<u>Page County Broadband</u>	<u>House of Hope</u>	<u>HMIS</u>	<u>Home Consortium</u>
REVENUES							
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 9,390	\$ 15,917	\$ 402,399
State grants	75,971	-	-	-	-	-	-
Local governments	125,892	69,517	43,349	38,889	-	-	-
Other income	7,938	2,300	-	-	-	-	-
Total revenues	<u>209,801</u>	<u>71,817</u>	<u>43,349</u>	<u>38,889</u>	<u>9,390</u>	<u>15,917</u>	<u>402,399</u>
EXPENSES							
Salaries and employee benefits	22,340	53,868	27,540	25,561	1,146	8,776	29,181
Advertising	172	3,984	356	115	-	-	2,994
Communications	-	-	119	-	-	-	-
Computer software	-	-	-	-	-	-	56
Conferences and meetings	3,318	241	-	25	-	275	144
Contract services	-	9,402	1,000	-	8,518	9,120	367,690
Dues and memberships	-	167	-	-	-	-	251
Equipment rental/purchase	82	2,611	444	1,180	-	64	944
Insurance	-	-	-	-	-	-	-
Maintenance	-	-	285	-	-	-	-
Office supplies	(943)	5	75	-	-	-	-
Postage	-	-	33	23	-	-	40
Travel	341	1,715	604	869	-	36	646
Overhead and indirect costs	20,506	21,561	14,142	12,896	532	4,121	15,841
Total expenses	<u>45,816</u>	<u>93,554</u>	<u>44,598</u>	<u>40,669</u>	<u>10,196</u>	<u>22,392</u>	<u>417,787</u>
Mandatory 20% grant matching funds	<u>(55,688)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenses	<u>\$ 108,297</u>	<u>\$ (21,737)</u>	<u>\$ (1,249)</u>	<u>\$ (1,780)</u>	<u>\$ (806)</u>	<u>\$ (6,475)</u>	<u>\$ (15,388)</u>

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION

**Schedule of Revenues and Expenses by Project
For the Year Ended June 30, 2013**

NSP Stimulus	Community Change Grant	VDRPT Trip Ride- Sharing Grant	VDOT Rural Trans- portation Planning Grant	MPO Highway and Transportation Planning	Stormwater	Solid Waste Manage- ment	Hazard Mitigation	Totals
\$129,174	\$ -	\$ -	\$ 58,000	\$ 214,004	\$ 12,156	\$ -	\$ 22,100	\$ 863,140
-	-	164,752	-	26,758	-	-	-	267,481
-	-	-	-	26,758	-	37,153	-	341,558
-	5,000	-	-	-	-	-	-	15,238
<u>129,174</u>	<u>5,000</u>	<u>164,752</u>	<u>58,000</u>	<u>267,520</u>	<u>12,156</u>	<u>37,153</u>	<u>22,100</u>	<u>1,487,417</u>
13,002	1,908	86,568	47,860	116,201	8,349	19,091	22,291	483,682
-	-	73,999	-	2,124	-	-	-	83,744
-	-	1,126	-	500	-	-	-	1,745
-	-	2,786	130	695	-	-	30	3,697
269	-	1,495	561	168	21	172	44	6,733
108,644	-	-	-	83,439	603	264	-	588,680
206	-	430	39	150	-	-	-	1,243
83	7	372	1,068	3,070	1	83	927	10,936
831	-	-	-	-	-	1,284	-	2,115
-	-	-	-	-	-	-	-	285
-	-	12	12	657	-	3	21	(158)
5	-	8	2	74	-	-	-	185
175	-	2,456	490	1,594	32	309	222	9,489
<u>8,301</u>	<u>889</u>	<u>40,119</u>	<u>23,240</u>	<u>58,191</u>	<u>3,892</u>	<u>9,368</u>	<u>10,908</u>	<u>244,507</u>
<u>131,516</u>	<u>2,804</u>	<u>209,371</u>	<u>73,402</u>	<u>266,863</u>	<u>12,898</u>	<u>30,574</u>	<u>34,443</u>	<u>1,436,883</u>
-	-	41,188	14,500	-	-	-	-	-
<u>\$ (2,342)</u>	<u>\$ 2,196</u>	<u>\$ (3,431)</u>	<u>\$ (902)</u>	<u>\$ 657</u>	<u>\$ (742)</u>	<u>\$ 6,579</u>	<u>\$ (12,343)</u>	<u>\$ 50,534</u>

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

4437 Brookfield Corporate Dr., Suite 205-D
Chantilly, VA 20151

**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***

Board of Directors
Northern Shenandoah Valley Regional Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type, activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Northern Shenandoah Valley Regional Commission as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Northern Shenandoah Valley Regional Commission's basic financial statements, and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

Management of Northern Shenandoah Valley Regional Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Northern Shenandoah Valley Regional Commission's internal control over financial reporting to determine the audit procedures that are appropriate in circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Northern Shenandoah Valley Regional Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Shenandoah Valley Regional Commission's internal control.

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

Our consideration of internal control 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants
Chantilly, Virginia

November 21, 2013

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

4437 Brookfield Corporate Dr., Suite 205-D
Chantilly, VA 20151

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Commissioners
Northern Shenandoah Valley Regional Commission

Report on Compliance for Each Major Federal Program

We have audited Northern Shenandoah Valley Regional Commission's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Northern Shenandoah Valley Regional Commission's major federal programs for the year ended June 30, 2013. Northern Shenandoah Valley Regional Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northern Shenandoah Valley Regional Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northern Shenandoah Valley Regional Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However our audit does not provide a legal determination of Northern Shenandoah Valley Regional Commission's compliance.

Opinion on Each Major Program

In our opinion, Northern Shenandoah Valley Regional Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

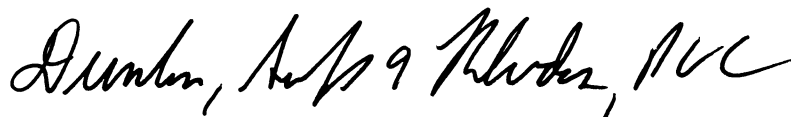
Report on Internal Control Over Compliance

Management of Northern Shenandoah Valley Regional Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northern Shenandoah Valley Regional Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Northern Shenandoah Valley Regional Commission's internal control over compliance.

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

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

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



Certified Public Accountants
Chantilly, Virginia

November 21, 2013

**NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013**

Major Program	<u>FEDERAL CATALOG NUMBER</u>	<u>EXPENDITURES</u>
Department of Housing and Urban Development Pass through payment - City of Winchester HOME Program	14.239	\$ 402,399
Other Federal Awards		
Department of Housing and Urban Development House of Hope	14.xxx	9,390
Homeless Management Information Systems	14.261	15,917
Pass through payment - Virginia Department of Housing and Community Development ARRA - Neighborhood Stabilization Plan	14.228	129,174
Department of Transportation Pass through payment - Virginia Department of Transportation Federal Highway Planning and Research	20.205	272,004
Environmental Protection Agency Pass through payment - Virginia Department of Conservation and Recreation Stormwater Management	66.466	12,156
Department of Homeland Security Pass through Payment - Virginia Department of Emergency Management Hazard Mitigation	97.047	<u>22,100</u>
Total Expenditures of Federal Awards		<u>\$ 863,140</u>

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Northern Shenandoah Valley Regional Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget 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.

NOTE 2 - Subrecipients

Of the expenditures presented in the Schedule, the Commission provided awards to subrecipients as follows:

HOME Program	14.239	<u>Subrecipient Name</u>	<u>Amount Provided</u>
		People Inc. of Virginia	\$ 117,500
		Community Housing Partners Corporation	100,455
		Help with Housing, Inc.	49,595
		Faithworks, Inc.	34,108
		Blue Ridge Housing Network	31,786
		Habitat for Humanity of Winchester	30,446
		Phazz One Ministries	2,000
			<u>\$ 365,890</u>

Northern Shenandoah Valley Regional Commission
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting

- Material weakness(es) identified ___ Yes X No

- Significant deficiency(ies) identified ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified ___ Yes X No

- Reportable condition(s) identified that are not considered
to be material weaknesses? ___ Yes X No

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of Circular A-133? ___ Yes X No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Program

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

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

NORTHERN SHENANDOAH VALLEY REGIONAL COMMISSION
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE			
Grants and appropriations:			
Federal grants	\$ 917,038	\$ 863,140	\$ (53,898)
State grants and appropriations	243,970	267,481	23,511
Local grants and appropriations	352,278	341,558	(10,720)
Other revenue:			
Interest	-	316	316
Miscellaneous	18,300	14,922	(3,378)
TOTAL REVENUES	1,531,586	1,487,417	(44,169)
EXPENDITURES			
Current Operating:			
Contract services	688,695	587,416	101,279
Salaries	467,300	469,335	(2,035)
Employee benefits and payroll taxes	165,135	154,772	10,363
Advertising	69,000	84,636	(15,636)
Rent	18,000	18,000	-
Travel	17,500	17,838	(338)
Computer costs	15,000	15,034	(34)
Dues and memberships	13,250	11,701	1,549
Office equipment and repair	12,000	9,786	2,214
Equipment rental	10,000	8,715	1,285
Professional fees	8,960	13,352	(4,392)
Utilities	6,500	6,121	379
Office supplies and expense	6,000	6,292	(292)
Insurance	6,000	7,429	(1,429)
Other costs	5,250	2,796	2,454
Communications	5,000	5,247	(247)
Regional meetings	5,000	7,627	(2,627)
Capital purchases	3,500	10,409	(6,909)
TOTAL EXPENDITURES	1,522,090	1,436,506	85,584
EXCESS OF REVENUES OVER EXPENDITURES	\$ 9,496	50,911	\$ 41,415
FUND BALANCE - Beginning of year		327,409	
FUND BALANCE - End of year		\$ 378,320	

Reconciliation of the Statement of Revenues, Expenditures, and Changes
Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net Change in Fund Balances - Total Government Funds	\$ 50,911
Effect of capital purchases in budget	10,409
Effect of depreciation not budgeted	(10,786)
Change in net assets reported on the Statement of Activity	\$ 50,534

See accompanying notes.