

**TOWN OF LOUISA, VIRGINIA**

**FINANCIAL REPORT**

**June 30, 2013**

# **TOWN OF LOUISA, VIRGINIA**

## **TABLE OF CONTENTS**

### **INTRODUCTORY SECTION**

	Page
Directory of Principal Officials .....	5

### **FINANCIAL SECTION**

<b>Independent Auditor's Report</b> .....	7
---	---

#### **Basic Financial Statements**

##### **Government-Wide Financial Statements**

Exhibit 1	Statement of Net Position .....	11
Exhibit 2	Statement of Activities .....	12

##### **Fund Financial Statements**

Exhibit 3	Balance Sheet – Governmental Fund .....	13
Exhibit 4	Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Position .....	14
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds .....	15
Exhibit 6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities .....	16
Exhibit 7	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – (Cash Basis) .....	17
Exhibit 8	Statement of Net Position – Proprietary Funds .....	18
Exhibit 9	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	19
Exhibit 10	Statement of Cash Flows – Proprietary Funds .....	20

<b>Notes to Financial Statements</b> .....	21
--	----

### **REQUIRED SUPPLEMENTARY INFORMATION**

Exhibit 11	Schedule of Funding Progress for Defined Benefit Pension Plan .....	43
------------	---	----

## **TOWN OF LOUISA, VIRGINIA**

### **TABLE OF CONTENTS (Continued)**

#### **OTHER SUPPLEMENTARY INFORMATION**

##### **Discretely Presented Component Unit – Louisa Industrial Development Authority**

Exhibit A-1	Statement of Net Position – Proprietary Fund .....	45
Exhibit A-2	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund .....	46
Exhibit A-3	Statement of Cash Flows – Proprietary Fund .....	47

#### **COMPLIANCE SECTION**

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 <i>Government Auditing Standards</i> .....	49
Summary of Compliance Matters .....	51
Schedule of Findings and Responses .....	52

## INTRODUCTORY SECTION

---

**TOWN OF LOUISA, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**

**June 30, 2013**

**TOWN COUNCIL**

James S. Artz, Mayor  
Mary J. Clarke, Vice Mayor  
R. Garland Nuckols  
Matthew L. Kersey, Jr.  
Warren Gehle  
A. Daniel Carter

**GENERAL TOWN GOVERNMENT**

Brian W. Marks..... Town Manager  
Donna L. Pinter ..... Treasurer  
Jessie L. Shupe ..... Police Chief  
Jessica C. Ellis ..... Town Clerk  
Jeffrey S. Gore ..... Town Attorney

**INDEPENDENT AUDITORS**

Brown, Edwards & Company, L.L.P.

## **FINANCIAL SECTION**

---

## INDEPENDENT AUDITOR'S REPORT

Honorable Members of Town Council  
Town of Louisa, Virginia  
Louisa, Virginia

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

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Louisa, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund 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 schedule of funding progress for the defined benefit pension plan 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 historic 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The introductory section and other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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



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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
December 4, 2013

## **BASIC FINANCIAL STATEMENTS**

---

## TOWN OF LOUISA, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2013

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business- Type Activities	Total	Louisa Industrial Development Authority
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 1,215,605	\$ 796,051	\$ 2,011,656	\$ 56,341
Cash and cash equivalents, restricted (Note 2)	53,710	849,295	903,005	-
Receivables, net (Note 3)	120,758	87,618	208,376	-
Due from other governments (Note 3)	35,141	14,800	49,941	-
Internal balances (Note 4)	1,560,325	(1,560,325)	-	-
Capital assets: (Note 5)				
Nondepreciable	97,581	3,137,264	3,234,845	-
Depreciable, net	5,226,952	2,686,140	7,913,092	-
Total assets	8,310,072	6,010,843	14,320,915	56,341
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	8,623	114,599	123,222	-
Accrued interest	2,842	3,093	5,935	-
Unearned revenue	-	52,500	52,500	-
Deposits payable	-	57,299	57,299	-
Noncurrent liabilities: (Note 6)				
Due within one year	67,826	138,608	206,434	-
Due in more than one year	1,896,256	3,041,734	4,937,990	-
Total liabilities	1,975,547	3,407,833	5,383,380	-
<b>NET POSITION</b>				
Net investment in capital assets	3,417,894	2,679,851	6,097,745	-
Restricted for cemeteries	53,710	848,668	902,378	-
Restricted for capital projects	-	627	627	-
Unrestricted	2,862,921	(926,136)	1,936,785	56,341
Total net position	\$ 6,334,525	\$ 2,603,010	\$ 8,937,535	\$ 56,341

## TOWN OF LOUISA, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Program Revenues					Net (Expense) Revenue and Changes in Net Position			Discretely Presented Component Unit Louisa Industrial Development Authority
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General administration	\$ 614,103	\$ 3,978	\$ -	\$ -	\$ (610,125)		\$ (610,125)	
Public safety	389,265	-	43,168	-	(346,097)		(346,097)	
Public works	179,187	15,630	27,879	39,338	(96,340)		(96,340)	
Oakland cemetery	12,080	-	-	-	(12,080)		(12,080)	
Community development	24,826	115	-	-	(24,711)		(24,711)	
Interest on long-term debt	80,296	-	-	-	(80,296)		(80,296)	
Total governmental activities	1,299,757	19,723	71,047	39,338	(1,169,649)		(1,169,649)	
Business-type activities								
Water and sewer	980,117	780,310	-	219,860		20,053	20,053	
Hillcrest Cemetery	65,726	-	-	-		(65,726)	(65,726)	
Total business-type activities	1,045,843	780,310	-	219,860		(45,673)	(45,673)	
Total primary government	\$ 2,345,600	\$ 800,033	\$ 71,047	\$ 259,198	(1,169,649)	(45,673)	(1,215,322)	
Discretely presented component unit:								
Louisa Industrial Development Authority	\$ -	\$ -	\$ -	\$ -				-
General revenues and transfers:								
					289,963	-	289,963	-
					480,699	-	480,699	-
					209,634	-	209,634	-
					52,825	-	52,825	-
					90,673	-	90,673	-
					13,198	-	13,198	-
					18,014	-	18,014	224
					31,424	33,627	65,051	-
Total general revenues					1,186,430	33,627	1,220,057	224
Change in net position					16,781	(12,046)	4,735	224
NET POSITION AT JULY 1, AS RESTATED (Note 1					6,317,744	2,615,056	8,932,800	56,117
NET POSITION AT JUNE 30					\$ 6,334,525	\$ 2,603,010	\$ 8,937,535	\$ 56,341

## TOWN OF LOUISA, VIRGINIA

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2013

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,215,605
Cash and cash equivalents, restricted	53,710
Receivables, net	120,758
Due from other funds	1,560,325
Due from other governments	35,141
Total assets	<u><u>\$ 2,985,539</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 8,623
Deferred revenue	45,100
Total liabilities	<u>53,723</u>
Fund balance:	
Nonspendable long-term amounts due from other funds	1,560,325
Restricted for cemetery	53,710
Committed to community development matching grant	300,000
Unassigned	<u>1,017,781</u>
Total fund balance	<u>2,931,816</u>
Total liabilities and fund balance	<u><u>\$ 2,985,539</u></u>

## TOWN OF LOUISA, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**June 30, 2013**

**Ending fund balance – governmental fund** \$ 2,931,816

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Nondepreciable	\$ 97,581	
Depreciable, net	<u>5,226,952</u>	
		5,324,533

Certain revenues are not available to pay for current period expenditures are not reported in the governmental fund.		45,100
--	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest payable	\$ (2,842)	
Compensated absences	(47,361)	
Long-term debt	<u>(1,916,721)</u>	
		<u>(1,966,924)</u>

<b>Total net position – governmental activities</b>		<u><u>\$ 6,334,525</u></u>
---	--	----------------------------

## TOWN OF LOUISA, VIRGINIA

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

	<u>General</u>
<b>REVENUES</b>	
Property taxes	\$ 314,820
Meals taxes	480,699
Business and professional license	209,634
Other local taxes	156,696
Permits, privilege fees, and regulatory licenses	115
Fines and forfeitures	3,978
Charges for services	15,630
Intergovernmental	110,385
Revenues from the use of money and property	18,014
Other	31,424
Total revenues	<u>1,341,395</u>
<b>EXPENDITURES</b>	
Current:	
General government	523,307
Public safety	392,851
Public works	175,459
Oakland cemetery	11,869
Debt service:	
Principal retirement	27,069
Interest and other fiscal charges	80,331
Total expenditures	<u>1,210,886</u>
Excess of revenues over expenditures	<u>130,509</u>
<b>OTHER FINANCING SOURCES</b>	
Capital lease proceeds	<u>13,238</u>
Total other financing sources	13,238
Net change in fund balance	143,747
<b>FUND BALANCE AT JULY 1, AS RESTATED (Note 10)</b>	<u>2,788,069</u>
<b>FUND BALANCE AT JUNE 30</b>	<u><u>\$ 2,931,816</u></u>

## TOWN OF LOUISA, VIRGINIA

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

<b>Net change in fund balance – total governmental fund</b>	\$ 143,747
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	13,238
Depreciation expense	<u>(136,022)</u>
	(122,784)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(24,857)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.	
Debt proceeds	(13,238)
Principal repayments	<u>27,069</u>
	13,831
The net effect of the change in accrued interest expense, which is not reflected in the fund statements.	35
Long-term compensated absences are reported in the Statement of Activities but they do not require the use of current financial resources and, therefore are not recorded as expenditures in governmental funds.	<u>6,809</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ 16,781</u></u>



## TOWN OF LOUISA, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND (CASH BASIS)  
Year Ended June 30, 2013**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Property taxes	\$ 277,379	\$ 288,379	\$ 301,103	\$ 12,724
Meals taxes	470,000	470,000	485,703	15,703
Business and professional license	225,000	225,000	195,295	(29,705)
Other local taxes	175,500	188,600	158,203	(30,397)
Permits, privilege fees, and regulatory licenses	-	1,500	115	(1,385)
Fines and forfeitures	-	21,000	6,444	(14,556)
Charges for services	-	21,000	15,601	(5,399)
Intergovernmental	1,595,089	1,476,069	99,787	(1,376,282)
Revenues from the use of money and property	8,600	14,000	18,014	4,014
Other	-	35,000	31,424	(3,576)
Total revenues	2,751,568	2,740,548	1,311,689	(1,428,859)
<b>EXPENDITURES</b>				
Current:				
General government	639,679	523,665	510,949	12,716
Public safety	437,645	427,345	393,453	33,892
Public works	227,823	216,081	174,809	41,272
Oakland cemetery	14,421	15,584	11,869	3,715
Capital outlay	1,652,000	1,432,000	-	1,432,000
Debt service:				
Principal retirement	-	23,913	23,913	-
Interest and other fiscal charges	-	80,331	80,331	-
Total expenditures	2,971,568	2,718,919	1,195,324	1,523,595
Excess (deficiency) of revenues over expenditures	(220,000)	21,629	116,365	94,736
Net change in fund balance	\$ (220,000)	\$ 21,629	\$ 116,365	\$ 94,736

**TOWN OF LOUISA, VIRGINIA**  
**STATEMENT OF NET POSITION –**  
**PROPRIETARY FUNDS**  
**June 30, 2013**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer</b>	<b>Hillcrest Cemetery</b>	<b>Total</b>
<b>ASSETS</b>			
Current:			
Cash and cash equivalents	\$ 796,051	\$ -	\$ 796,051
Cash and cash equivalents, restricted	627	848,668	849,295
Receivables, net	87,618	-	87,618
Due from other governments	14,800	-	14,800
Total current assets	899,096	848,668	1,747,764
Noncurrent:			
Capital assets:			
Nondepreciable	3,125,373	11,891	3,137,264
Depreciable, net	2,680,984	5,156	2,686,140
Total noncurrent assets	5,806,357	17,047	5,823,404
Total assets	6,705,453	865,715	7,571,168
<b>LIABILITIES</b>			
Current:			
Accounts payable and accrued liabilities	117,251	441	117,692
Deposits payable	57,299	-	57,299
Unearned revenue	52,500	-	52,500
Due to other funds	1,320,145	240,180	1,560,325
Current portion of long-term debt	132,099	6,509	138,608
Total current liabilities	1,679,294	247,130	1,926,424
Noncurrent:			
Long-term debt	3,004,945	-	3,004,945
Compensated absences	35,337	1,452	36,789
Total noncurrent liabilities	3,040,282	1,452	3,041,734
Total liabilities	4,719,576	248,582	4,968,158
<b>NET POSITION</b>			
Net investment in capital assets	2,669,313	10,538	2,679,851
Restricted for:			
Capital projects	627	-	627
Hillcrest cemetery	-	848,668	848,668
Unrestricted	(684,063)	(242,073)	(926,136)
Total net position	\$ 1,985,877	\$ 617,133	\$ 2,603,010

## TOWN OF LOUISA, VIRGINIA

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

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer</b>	<b>Hillcrest Cemetery</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 780,310	\$ -	\$ 780,310
Sale of lots and permits	-	11,633	11,633
Total operating revenues	780,310	11,633	791,943
<b>OPERATING EXPENSES</b>			
Salaries	212,859	51,616	264,475
Fringe benefits	70,174	8,663	78,837
Maintenance	44,014	1,533	45,547
Materials and supplies	11,486	2,356	13,842
Purchase of water	445,514	-	445,514
Other	18,563	401	18,964
Depreciation	133,504	1,157	134,661
Total operating expenses	936,114	65,726	1,001,840
Operating loss	(155,804)	(54,093)	(209,897)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	4,190	17,804	21,994
Interest expense	(44,003)	-	(44,003)
Net nonoperating revenue (expenses)	(39,813)	17,804	(22,009)
Loss before contributions	(195,617)	(36,289)	(231,906)
Capital contributions	219,860	-	219,860
Change in net position	24,243	(36,289)	(12,046)
<b>NET POSITION AT JULY 1, AS RESTATED (Note 10)</b>	1,961,634	653,422	2,615,056
<b>NET POSITION AT JUNE 30</b>	\$ 1,985,877	\$ 617,133	\$ 2,603,010

**TOWN OF LOUISA, VIRGINIA**  
**STATEMENT OF CASH FLOWS –**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2013**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer</b>	<b>Hillcrest Cemetery</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 787,855	\$ 11,633	\$ 799,488
Payments to suppliers	(507,293)	(4,126)	(511,419)
Payments to employees	(282,479)	(59,438)	(341,917)
Net cash used in operating activities	(1,917)	(51,931)	(53,848)
<b>NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds due to other funds	210,762	49,341	260,103
Net cash provided by noncapital financing activities	210,762	49,341	260,103
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	62,401	-	62,401
Intergovernmental grants	51,060	-	51,060
Acquisition and construction of capital assets	(209,166)	(6,313)	(215,479)
Principal paid on debt	(96,451)	-	(96,451)
Interest paid on debt	(95,162)	-	(95,162)
Net cash used in capital and related financing activities	(287,318)	(6,313)	(293,631)
<b>INVESTING ACTIVITIES</b>			
Interest received	4,190	17,804	21,994
Net cash provided by investing activities	4,190	17,804	21,994
Net increase (decrease) in cash and cash equivalents	(74,283)	8,901	(65,382)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	870,961	839,767	1,710,728
Ending at June 30	\$ 796,678	\$ 848,668	\$ 1,645,346
<b>RECONCILIATION TO EXHIBIT 8</b>			
Cash and cash equivalents	\$ 796,051	\$ -	\$ 796,051
Cash and cash equivalents, restricted	627	848,668	849,295
	\$ 796,678	\$ 848,668	\$ 1,645,346
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating loss	\$ (155,804)	\$ (54,093)	\$ (209,897)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	133,504	1,157	134,661
Change in certain assets and liabilities:			
Decrease in:			
Accounts receivable	7,545	-	7,545
Increase in:			
Accounts payable and accrued liabilities	12,284	164	12,448
Compensated absences	554	841	1,395
Net cash used in operating activities	\$ (1,917)	\$ (51,931)	\$ (53,848)
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital asset purchases included in accounts payable at year end	\$ 68,757	\$ -	\$ 68,757
Non-cash capital contributions	\$ 154,000	\$ -	\$ 154,000
Capitalized interest	\$ 51,042	\$ -	\$ 51,042

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**A. The Financial Reporting Entity**

**Primary Government.** The Town of Louisa (the “Town”) was established in 1873. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. Town Council consists of a mayor, a vice mayor, and four other council members. The Town is part of Louisa County and has taxing powers subject to statewide restrictions and tax limits.

The Town provides a full range of municipal services including police, trash collection, public improvements, general administrative services, fire and rescue, recreation, and water and sewer services. Fire and first aid services are provided by the County and supplemented by volunteer departments.

**Discretely Presented Component Unit.** A discretely presented component unit is an entity that is legally separate from the government, but for which the government is financially accountable, or whose relationship with the government is such that exclusion would cause the government’s financial statements to be misleading or incomplete. It is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the Town.

**Louisa Industrial Development Authority**

The Louisa Industrial Development Authority (the “IDA”) was created to promote industry and develop trade by encouraging enterprises to locate and remain in the Town. The IDA is governed by a Board of Directors appointed by Town Council and the Town is financially accountable for the IDA. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate economic development.

The Town has no related or jointly governed organizations.

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Town. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

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

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental fund:

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

The Town reports the following major proprietary funds:

The *water and sewer fund* accounts for the financing of water and sewer services to the general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges.

The *Hillcrest Cemetery fund* accounts for the maintenance of the Hillcrest Cemetery that is intended to be recovered in the form of user charges through the sale of burial lots and head stone permits.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

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

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

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

**D. Budgets and Budgetary Accounting**

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

- 1) Prior to June 30<sup>th</sup>, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1<sup>st</sup>. This budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30<sup>th</sup>, the budget is legally enacted through passage of an appropriations ordinance. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them.
- 4) The appropriations ordinance places legal restrictions on expenditures at the function level. Management can over-expend at the line item level without approval of Town Council. The appropriation for each department or function can be revised only by Town Council.
- 5) Formal budgetary integration is employed as a management control device during the year.
- 6) Budgets are adopted on the cash basis.
- 7) Appropriations lapse on June 30<sup>th</sup> for all Town units.
- 8) All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30<sup>th</sup>.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**D. Budgets and Budgetary Accounting (Continued)**

The following is a reconciliation of the results of operations for the year on the budgetary basis to the GAAP basis:

	<u><b>General Fund</b></u>
Net change in fund balance (non-GAAP budgetary cash basis)	\$ 116,365
Modified accrual basis adjustments	<u>27,382</u>
Net change in fund balance (GAAP basis)	<u><u>\$ 143,747</u></u>

**E. Cash and Cash Equivalents**

Cash and cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less when purchased. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.

**F. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes, meals taxes and utility taxes. Business-type activities report utility services as the major receivable. The Town grants credit to the customers of its water and sewer systems.

The Town records an allowance for uncollectible accounts based on historical information.

The Town has a note receivable from Louisa Downtown Development Corporation that is due in 2016.

**G. Property Taxes**

Real estate taxes are levied and attached as an enforceable lien by the Town of Louisa, Virginia, for all property of record as of January 1<sup>st</sup>. The Town collects real estate taxes on an annual basis. The portion of the tax receivable that is not collected within 60 days after year end is shown as deferred revenue in the fund financial statements. The tax rate assessed for the year ended June 30<sup>th</sup> was \$0.166 and \$0.71 per \$100 valuation of real estate and tangible personal property, respectively. A penalty of 10 percent of the tax is assessed after the applicable payment date. Interest is charged to all unpaid accounts at an annual rate of 10 percent.



**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**H. Capital Assets**

Capital assets, which include property, plant, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the government as assets with an initial, individual cost of more than \$5,000 and a useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10-50 years
Machinery and equipment	5-10 years
Vehicles	5-10 years
Infrastructure	10-50 years

**I. Capitalization of Interest**

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary capital assets. Interest is not capitalized on the construction of assets used in governmental activities. There was \$51,042 of capitalized interest in the current year.

**J. Deferred Revenue and Unearned Revenue**

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, *deferred revenue* in the governmental funds consisted primarily of taxes.

The proprietary fund reports *unearned revenue* for connection fees that a developer prepaid for but for which the Town has not yet made connections.

**K. Deposits Payable**

The proprietary fund reports *deposits payable* for security deposits on utility accounts. The deposits are fully refundable when service is cancelled.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**L. Compensated Absences**

The Town has policies which allow for the accumulation and vesting of limited amounts of vacation and compensatory leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the leave is due and payable.

**M. Long-Term Debt**

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

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

**N. Net Position/Fund Balance**

Net position in government-wide and proprietary financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted amounts represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental fund.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by Council.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

**N. Net Position/Fund Balance (Continued)**

Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

**O. Restricted Resources**

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**P. Minimum Fund Balance Policy**

The Town's policy is to maintain an unassigned fund balance in the general fund equal to \$1 million or 50% of total general fund revenues, whichever is greater. The water and sewer fund should maintain an unrestricted net position of no less than 200% of operating revenues. The Town did not meet this minimum fund balance requirement for the current year.

**Q. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds.

**R. Estimates**

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

**Note 2. Deposits and Investments**

**Deposits**

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

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 2. Deposits and Investments (Continued)**

**Investments**

**Investment Policy:**

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

As of June 30<sup>th</sup>, the Town had the following deposits and investments:

<b>Type</b>	<b>Primary Government</b>	<b>Component Unit - IDA</b>
Demand deposits	\$ 1,148,580	\$ 56,341
Certificates of Deposit	567,989	-
Money market	27,295	-
LGIP	1,170,797	-
	<u>\$ 2,914,661</u>	<u>\$ 56,341</u>
Reconciliation of deposits and investments to Exhibit 1:		
Cash and cash equivalents	\$ 2,011,656	\$ 56,341
Cash and cash equivalents, restricted	903,005	-
Total deposits and investments	<u>\$ 2,914,661</u>	<u>\$ 56,341</u>

**Credit Risk:**

As required by state statute, commercial paper must 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, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody’s and Standard & Poor’s. Banker’s acceptances and Certificates of Deposit 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 Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody’s or Standard & Poor’s. Repurchase agreements require that the counterparty be rated “A” or better by Moody’s and Standard & Poor’s.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 2. Deposits and Investments (Continued)**

**Investments (Continued)**

Concentration of Credit Risk:

Although the intent of the Policy is for the Town to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the Town may invest in any one issuer.

Interest Rate Risk:

As of June 30<sup>th</sup>, all certificates of deposit have original maturities less than fifteen months. The Town does not have a formal policy limiting investment maturities.

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30<sup>th</sup>, the Town has no investments subject to custodial credit risk.

Restricted Amounts:

Restricted cash and cash equivalents consist of \$53,710 for Oakland Cemetery, \$848,668 for Hillcrest Cemetery, and \$627 in the water and sewer fund for the wastewater treatment plant.

**Note 3. Receivables and Due from Other Governments**

Receivables are as follows:

	<b>General</b>	<b>Water and Sewer</b>	<b>Total</b>
Receivables			
Taxes	\$ 110,112	\$ -	\$ 110,112
Accounts	2,252	104,703	106,955
Due from other governments	4,405	-	4,405
Note receivable	25,000	-	25,000
	<hr/>	<hr/>	<hr/>
Gross receivables	141,769	104,703	246,472
Less: allowance for uncollectibles	(21,011)	(17,085)	(38,096)
	<hr/>	<hr/>	<hr/>
Net receivables	\$ 120,758	\$ 87,618	\$ 208,376
	<hr/>	<hr/>	<hr/>

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 3. Receivables and Due from Other Governments (Continued)**

Due from other governments are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Grant reimbursement	\$ 35,141	\$ 8,397	\$ 43,538
Due from County	-	6,403	6,403
Total due from other governments	<u>\$ 35,141</u>	<u>\$ 14,800</u>	<u>\$ 49,941</u>

**Note 4. Interfund Receivables and Payable/Interfund Transfers**

The composition of interfund balances results from prior year deficits and is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and Sewer	\$ 1,320,145
General	Hillcrest Cemetery	<u>240,180</u>
		<u>\$ 1,560,325</u>

Interfund balances are the result of past cash deficits in the water and sewer fund and the Hillcrest Cemetery fund. The balances are not expected to be repaid in the near future, but repayment is expected to occur.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 5. Capital Assets**

Capital asset activity for the year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance, as Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated				
Land	\$ 97,581	\$ -	\$ -	\$ 97,581
Total capital assets, not depreciated	97,581	-	-	97,581
Capital assets, depreciated				
Buildings and improvements	6,061,246	-	-	6,061,246
Machinery and equipment	373,980	13,238	(2,639)	384,579
Vehicles	321,834	-	-	321,834
Infrastructure	24,854	-	-	24,854
Total capital assets, depreciated	6,781,914	13,238	(2,639)	6,792,513
Less accumulated depreciation for:				
Buildings and improvements	(751,323)	(121,726)	-	(873,049)
Machinery and equipment	(363,267)	(7,595)	2,639	(368,223)
Vehicles	(292,734)	(6,701)	-	(299,435)
Infrastructure	(24,854)	-	-	(24,854)
Total accumulated, depreciation	(1,432,178)	(136,022)	2,639	(1,565,561)
Total capital assets, depreciated, net	5,349,736	(122,784)	-	5,226,952
Governmental activities capital assets, net	\$ 5,447,317	\$ (122,784)	\$ -	\$ 5,324,533

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 5. Capital Assets (Continued)**

Capital asset activity for the year was as follows:

<b>Business-Type Activities</b>	<b>Beginning Balance , as Restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated				
Construction in progress	\$ 2,699,398	\$ 437,866	\$ -	\$ 3,137,264
Total capital assets, not depreciated	<u>2,699,398</u>	<u>437,866</u>	<u>-</u>	<u>3,137,264</u>
Capital assets, depreciated				
Machinery and equipment	69,199	45,100	-	114,299
Vehicles	72,703	6,312	-	79,015
Infrastructure	<u>5,117,839</u>	<u>-</u>	<u>-</u>	<u>5,117,839</u>
Total capital assets, depreciated	<u>5,259,741</u>	<u>51,412</u>	<u>-</u>	<u>5,311,153</u>
Less accumulated depreciation for:				
Machinery and equipment	(69,199)	-	-	(69,199)
Vehicles	(58,203)	(6,957)	-	(65,160)
Infrastructure	<u>(2,362,950)</u>	<u>(127,704)</u>	<u>-</u>	<u>(2,490,654)</u>
Total accumulated, depreciation	<u>(2,490,352)</u>	<u>(134,661)</u>	<u>-</u>	<u>(2,625,013)</u>
Total capital assets, depreciated, net	<u>2,769,389</u>	<u>(83,249)</u>	<u>-</u>	<u>2,686,140</u>
Business-type activities capital assets, net	<u>\$ 5,468,787</u>	<u>\$ 354,617</u>	<u>\$ -</u>	<u>\$ 5,823,404</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General administration	\$ 100,209
Public safety	6,701
Public works	4,286
Community development	<u>24,826</u>
Total depreciation expense – governmental activities	<u>\$ 136,022</u>
Business-type activities	
Water and sewer	\$ 133,504
Hillcrest cemetery	<u>1,157</u>
	<u>\$ 134,661</u>

(Continued)



**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 6. Long-Term Liabilities**

The following is a summary of changes in long-term liabilities for the year:

<b>Governmental Activities</b>	<b>Beginning Balance, as Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
General obligation bonds	\$ 1,930,552	\$ -	\$ 23,913	\$ 1,906,639	\$ 24,937
Capital lease	-	13,238	3,156	10,082	4,364
Compensated absences	54,170	-	6,809	47,361	38,525
	<u>\$ 1,984,722</u>	<u>\$ 13,238</u>	<u>\$ 33,878</u>	<u>\$ 1,964,082</u>	<u>\$ 67,826</u>

  

<b>Business-Type Activities</b>	<b>Beginning Balance, as Restated</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
General obligation bonds	\$ 3,171,094	\$ 62,401	\$ 96,451	\$ 3,137,044	\$ 103,053
Compensated absences	41,903	1,395	-	43,298	35,555
	<u>\$ 3,212,997</u>	<u>\$ 63,796</u>	<u>\$ 96,451</u>	<u>\$ 3,180,342</u>	<u>\$ 138,608</u>

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 6. Long-Term Liabilities (Continued)**

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

<b>Fiscal Year</b>	<b>Governmental Activities</b>				<b>Business-Type Activities</b>	
	<b>General Obligation Bonds</b>		<b>Capital Lease</b>		<b>General Obligation Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 24,937	\$ 79,307	\$ 4,364	\$ 340	\$ 103,053	\$ 93,329
2015	26,000	78,244	4,550	153	106,653	91,422
2016	27,109	77,135	1,168	8	109,648	88,427
2017	28,265	75,979	-	-	112,736	85,339
2018	29,470	74,774	-	-	115,917	82,158
2019-2023	167,310	353,910	-	-	630,873	359,503
2024-2028	206,164	315,056	-	-	726,658	263,717
2029-2033	254,042	267,178	-	-	824,465	151,788
2034-2038	313,042	208,178	-	-	263,251	62,745
2039-2043	385,749	135,471	-	-	143,790	8,332
2044-2048	444,551	46,031	-	-	-	-
	<u>\$ 1,906,639</u>	<u>\$ 1,711,263</u>	<u>\$ 10,082</u>	<u>\$ 501</u>	<u>\$ 3,137,044</u>	<u>\$ 1,286,760</u>

Details of long-term indebtedness are as follows:

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Final Maturity Date</b>	<b>Amount of Original Issue</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
General obligation bonds:						
Rural Housing Service R-1	4.250%	04-08	03-48	\$ 950,000	\$ 906,535	\$ -
Rural Housing Service R-2	4.125%	04-08	03-48	550,000	523,851	-
Rural Housing Service R-3	4.125%	04-08	03-48	500,000	476,253	-
VRA Loan	2.500%	08-13	02-43	66,000	-	62,401
Rural Development	4.500%	11-01	09-40	1,134,400	-	969,593
Rural Development	2.625%	10-09	04-48	3,315,000	-	2,105,050
					<u>\$ 1,906,639</u>	<u>\$ 3,137,044</u>

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 7. Defined Benefit Pension Plan**

**Plan Description**

The Town of Louisa contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). 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 January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

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

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period 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 Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 12.21% of annual covered payroll, excluding the employee contribution assumed by the Town.

**Annual Pension Cost**

For the fiscal year ended June 30, 2013, the Town's annual pension cost of \$ 78,876 was equal to the Town's required and actual contributions.

<b>Three-Year Trend Information</b>			
	<b>Annual Pension</b>	<b>Percentage of</b>	<b>Net Pension</b>
<b>Fiscal Year Ending</b>	<b>Cost</b>	<b>(APC)</b>	<b>Obligation</b>
	<b>(APC)</b>	<b>Contributed</b>	
June 30, 2013	\$ 76,876	100%	\$ -
June 30, 2012	\$ 68,601	100%	\$ -
June 30, 2011	\$ 65,129	100%	\$ -

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 7. Defined Benefit Pension Plan (Continued)**

**Annual Pension Cost (Continued)**

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumption 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 3.50% and 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.25% 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. The 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, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

**Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 89.58% funded. The actuarial accrued liability for benefits was \$1,796,094, and the actuarial value of assets was \$1,608,993, resulting in an unfunded actuarial accrued liability (UAAL) of \$187,101. The covered payroll (annual payroll of active employees covered by the plan) was \$521,115, and ratio of the UAAL to the covered payroll was 35.90%.

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

**Note 8. 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; natural disasters; and employee dishonesty. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in a public entity risk pool that operates as common risk management and insurance program for member municipalities. The Town is not self-insured.

The Town has insurance coverage with VML Insurance Programs. Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Town's settled claims have not exceeded insurance coverage in any of the past three fiscal years. There is current litigation outstanding, but management feels that any potential unfavorable outcome would be covered by Town insurance.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 9. Commitments**

The Town leases a parking lot which had current year expenditures of approximately \$14,000 and is classified as an operating lease. The future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>
2014	\$ 15,315
2015	15,775
2016	16,248
2017	16,735
2018	17,237
2019-2023	94,261
2024-2028	109,274
2029-2030	46,333
	<u>\$ 331,178</u>

**Note 10. Prior Period Restatement**

The following is a summary of the restatements to fund balance/net position:

	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Water and Sewer Fund</u>	<u>Hillcrest Cemetery</u>
Fund balance/net position, June 30, 2012, as previously stated	\$ 2,764,777	\$ 6,283,687	\$ 1,906,527	\$ 88,008
To correct beginning balances to agree to prior year report	-	-	-	(176,016)
To correct recording of Hillcrest Trust Fund	-	-	-	839,767
To record unbilled utility accounts receivable	-	-	55,127	-
To correct errors in compensated absences	48,292	(5,878)	(34,783)	(7,120)
To record accrued interest	-	(2,877)	(3,165)	-
To record previous depreciation	-	(19,799)	-	(91,217)
To record an allowance for utility accounts receivable	-	-	(17,085)	-
To record capitalized interest	-	-	77,513	-
To correct deferred revenue	(25,000)	38,068	(22,500)	-
To record TEA grant drawdown	<u>-</u>	<u>24,543</u>	<u>-</u>	<u>-</u>
Fund balance/net position June 30, 2012, as restated	<u>\$ 2,788,069</u>	<u>\$ 6,317,744</u>	<u>\$ 1,961,634</u>	<u>\$ 653,422</u>

(Continued)

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 11. Support Agreement**

The Town entered into a non-binding support agreement with the Louisa Downtown Development Corporation (“LDDC”) on April 17, 2007 whereby the Town pays the LDDC \$520,000 plus 5% interest in eight annual payments, the final payment being made July 1, 2014. The funds were used in connection with long-term financing the LDDC used to pay reconstruction, renovation, and rehabilitation costs. Annual payments are subject to annual appropriations by Town Council.

**Note 12. Conduit Debt Obligations**

From time to time, the discretely presented component unit – Industrial Development Authority has issued bonds to provide financial assistance to entities for the facility construction, pollution control, and solid waste control. Upon repayment of the bonds, ownership of the facilities and improvements transfers to the entity served by the bond issuance. Neither the Town nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**Note 13. Subsequent Events**

In July 2013, the Town was awarded two Drinking Water Construction Assistance grants that consisted of a \$213,800 loan at 2% for 30 years with \$92,000 of principal forgiveness and a \$458,750 loan at 2% interest for 30 years with \$196,000 of principal forgiveness.

**Note 14. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The Statement will be effective for the year ending June 30, 2014.

**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 14. New Accounting Standards (Continued)**

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The Statement amends *GASB Statement No. 10* by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The Statement also amends *GASB Statement No. 62* by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial Statements and in 10-year RSI schedules. This Statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with *GASB Statement No. 34*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.



**TOWN OF LOUISA, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 14. New Accounting Standards (Continued)**

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also provides guidance on the accounting for the government if they are the obligor in the transaction and on intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. This Statement will be effective for the year ending June 30, 2014.

Management has not determined the effect, if any, these statements will have on the Town.

## **REQUIRED SUPPLEMENTARY INFORMATION**

---

## TOWN OF LOUISA, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN**  
**June 30, 2013**

	(a)	(b)	(b-a) Unfunded (Overfunded)	(a/b)	(c)	((b-a)/c)
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>UAAL as of Percentage of Covered Payroll</b>
June 30, 2012	\$ 1,608,993	\$ 1,796,094	\$ 187,101	89.58%	\$ 521,115	35.90%
June 30, 2011	\$ 1,551,414	\$ 1,747,830	\$ 196,416	88.76%	\$ 591,330	33.22%
June 30, 2010	\$ 1,466,163	\$ 1,692,102	\$ 225,939	86.65%	\$ 567,765	39.77%

## **OTHER SUPPLEMENTARY INFORMATION**

---

## TOWN OF LOUISA, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –  
LOUISA INDUSTRIAL DEVELOPMENT AUTHORITY  
STATEMENT OF NET POSITION – PROPRIETARY FUND  
June 30, 2013**

**ASSETS**

## Current assets:

Cash and cash equivalents

\$ 56,341

Total assets

56,341**NET POSITION**

## Unrestricted

56,341

Total net position

\$ 56,341

## TOWN OF LOUISA, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –**  
**LOUISA INDUSTRIAL DEVELOPMENT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**FUND NET POSITION – PROPRIETARY FUND**  
**Year Ended June 30, 2013**

**NONOPERATING REVENUES**

Interest income	\$ 224
Change in net position	224
<b>NET POSITION AT JULY 1</b>	<u>56,117</u>
<b>NET POSITION AT JUNE 30</b>	<u><u>\$ 56,341</u></u>

## TOWN OF LOUISA, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT –  
LOUISA INDUSTRIAL DEVELOPMENT AUTHORITY  
STATEMENT OF CASH FLOWS – PROPRIETARY FUND  
Year Ended June 30, 2013**

**INVESTING ACTIVITIES**

Interest received	\$ 224
	<hr/>
Net cash provided by investing activities	224
	<hr/>
Net increase in cash and cash equivalents	224

**CASH AND CASH EQUIVALENTS**

Beginning at July 1	56,117
Ending at June 30	<u><u>\$ 56,341</u></u>

## COMPLIANCE SECTION

---



**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**

Honorable Members of Town Council  
Town of Louisa, Virginia  
Louisa, Virginia

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 the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Louisa, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 4, 2013.

**Internal Control over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying schedule of findings and responses as items 13-1 and 13-2 to be material weaknesses.**

## Internal Control over Financial Reporting (Continued)

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. **We consider the deficiency described in the accompanying schedule of findings and responses as item 13-3 to be a significant deficiency.**

## 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 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*.**

## Town of Louisa's Response to Findings

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## 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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
December 4, 2013

**TOWN OF LOUISA, VIRGINIA**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2013**

As more fully described in the 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*, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grants shown below:

**STATE COMPLIANCE MATTERS**

Code of Virginia:

Budget and Appropriation Laws  
Cash and Investment Laws

**LOCAL COMPLIANCE MATTERS**

Town Charter

**TOWN OF LOUISA, VIRGINIA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2013**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

**13-1: Segregation of Duties (Material Weakness)**

*Condition:*

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to cash receipts, accounts receivable, cash disbursements, accounts payable, payroll, journal entries, and information technology application access.

*Recommendation:*

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

*Management's Response:*

Current staffing makes total separation of duties impossible to implement. Management will look at each function to minimize risk.

**13-2: Audit Adjustments (Material Weakness)**

*Condition:*

We noted that there were errors which required adjustments to current year and prior period financial statements, indicating a material weakness in controls over financial reporting.

*Recommendation:*

The Town should implement steps to improve its financial reporting process.

*Management's Response:*

Following current auditing methodology and requirements will eliminate this condition.

**13-3: Information Technology (Significant Deficiency)**

*Condition:*

The Town's server is currently located in an employee's office and is physically accessible by all office personnel. Data backups are not currently being tested.

The Town's information technology (IT), other than the BAI application, is not being actively managed by an IT expert.

*Recommendation:*

We recommend that the Town consider entering into a contract with an IT vendor to regularly check and maintain certain critical IT functions, especially as they relate to security.

*Management's Response:*

The Town agrees with this recommendation and has contacted BAI about testing backups quarterly.