

TOWN OF BROOKNEAL, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

TOWN OF BROOKNEAL, VIRGINIA

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Directory of Principal Officials	1
----------------------------------	---

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements	
Balance Sheet - Governmental Funds and Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	9
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds and Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Statement of Net Position - Proprietary Funds	12
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	13
Statement of Cash Flows - Proprietary Funds	14
Notes to Financial Statements	15

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund	30
Schedule of Funding Progress for Defined Benefit Pension Plan	31

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>	32
---	----

INTRODUCTORY SECTION

TOWN OF BROOKNEAL, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2013

TOWN COUNCIL

Phyllis Campbell, Mayor
James Nowlin, Vice Mayor
Richard Adams
Joseph B. David, Jr.
Robert Jean
Barbara LaPrade
Mark Wilkes

APPOINTED OFFICIALS

Russell B. Thurston	Town Manager
Bobbie Waller	Clerk/Treasurer
Michael Crews	Public Works Director
Richard W. Baldwin	Chief of Police

FINANCIAL SECTION

M. JERRY REYNOLDS, P.C.

Certified Public Accountants

801 Church Street
Lynchburg, Virginia 24504

Independent Auditor's Report

Honorable Members of Town Council
Town of Brookneal, Virginia

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 Town of Brookneal, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of the Town of Brookneal, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6, budgetary comparison information on page 30, and schedule of funding progress for defined benefit pension plan on page 31 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 Town of Brookneal, Virginia's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of the Town of Brookneal, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Brookneal, Virginia's internal control over financial reporting and compliance.



Lynchburg, Virginia
October 18, 2013

TOWN OF BROOKNEAL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Town of Brookneal's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2013. This document should be considered part of and in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The Town's general fund operating revenue remained stable in fiscal 2013.

The utility fund experienced an operating loss of \$143,065 in fiscal 2013, down from a loss of \$151,076 in fiscal 2012. For fiscal 2013, operating revenues increased \$21,797 and operating expenses increased \$13,786. Operating losses for 2013 and 2012 included depreciation expense of \$217,114 and \$197,030 respectively.

The town currently has the following outstanding debt:

Water System Improvement General Obligation Bond, Series 2011	\$ 862,117
Water System Improvement General Obligation Bond, Series 2011	\$ 173,782

USING THIS ANNUAL REPORT

This annual report consists of two government-wide financial statements, the Statement of Net Position and the Statement of Activities, which provide financial information about the town as a whole, as well as fund financial statements providing financial information about the town's individual funds, the Governmental Funds and the Water and Sewer Fund.

STATEMENTS OF NET POSITION

The total cash and other assets of the town's governmental activities funds are \$1,596,781. This primarily consists of cash and cash equivalents (\$1,029,378), land, buildings, and other property and equipment.

The total current and noncurrent liabilities of these funds are \$19,439.

The total net position of these funds is \$1,577,342.

The total cash and other assets of the town's water and sewer fund are \$8,467,803. This primarily consists of land & depreciable buildings, property and equipment (\$7,963,218), cash and cash equivalents (\$465,845), and accounts receivable.

The total current and noncurrent liabilities of this fund are \$1,047,280.

The total net position of the town's water and sewer fund is \$7,420,523.

TOWN OF BROOKNEAL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (GENERAL FUND)**

	<u>Budgeted</u>	<u>Actual</u>	<u>Difference</u>
Revenues	\$ 612,128	\$ 653,987	\$ 41,859
Expenditures	612,128	621,231	(9,103)
Transfers out	0	0	0
Excess	0	32,756	32,756

The meals tax generated \$111,347.

SOURCES OF REVENUES (GENERAL FUND)

A summary of the sources of revenues is as follows:

	<u>Budgeted</u>	<u>Actual</u>
General property taxes	\$ 193,295	\$ 187,642
Other local taxes	321,517	337,554
Fines and forfeitures	9,845	20,840
Interest	10,000	6,440
Rents	4,800	5,200
Charges for services	23,000	21,779
Intergovernmental	47,621	61,468
Other	<u>2,050</u>	<u>13,064</u>
Total Revenues	<u>\$ 612,128</u>	<u>\$ 653,987</u>

TOWN OF BROOKNEAL, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

CAPITAL

The Town of Brookneal saw significant capital investment in Fiscal 2013. Improvements funded by the Downtown Grant totaled approximately \$94,000. The amount expended for water and sewer improvements during Fiscal 2013 (funded primarily by USDA grants) was approximately \$62,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Each year the Town of Brookneal prepares a comprehensive budget for the upcoming fiscal year. Assumptions made in the budgetary process include: 1) all programs will be ongoing and based on current funding resources, and 2) the Town of Brookneal should break-even for the forecast year. Economic trends suggest that all current programs continue to be in demand; however, due to revenue challenges there may need to be modifications in the future in order to control costs.

CONTACTING THE TOWN OF BROOKNEAL

This financial report is designed to provide taxpayers, customers, and creditors with a general overview of the finances of the Town of Brookneal and to show the town's accountability for the money it receives. Should anyone reviewing this report have questions or require additional information, contact the Town Office, Town of Brookneal, P.O. Box 450, Brookneal, Virginia 24528 or by calling 434/376/3124.

BASIC FINANCIAL STATEMENTS

TOWN OF BROOKNEAL, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,029,378	\$ 465,845	\$ 1,495,223
Receivables, net	16,021	38,740	54,761
Capital assets			
Land	180,088	22,129	202,217
Depreciable buildings, property and equipment, net	<u>371,294</u>	<u>7,941,089</u>	<u>8,312,383</u>
Total assets	<u>\$ 1,596,781</u>	<u>\$ 8,467,803</u>	<u>\$ 10,064,584</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 6,072	\$ 188	\$ 6,260
Accrued payroll and related liabilities	-	-	-
Noncurrent liabilities			
Due within one year	9,744	22,679	32,423
Due in more than one year	<u>3,623</u>	<u>1,024,413</u>	<u>1,028,036</u>
Total liabilities	<u>19,439</u>	<u>1,047,280</u>	<u>1,066,719</u>
NET POSITION			
Net Investment in capital assets	551,382	6,927,319	7,478,701
Unrestricted	<u>1,025,960</u>	<u>493,204</u>	<u>1,519,164</u>
Total net position	<u>\$ 1,577,342</u>	<u>\$ 7,420,523</u>	<u>\$ 8,997,865</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
General Government Administration	\$ 177,603	\$ -	\$ -	\$ -	\$ (177,603)	\$ -	\$ (177,603)
Public Safety	156,736	-	40,091	21,000	(95,645)	-	(95,645)
Public Works	280,394	21,779	1,203	-	(257,412)	-	(257,412)
Parks, Recreation and Cultural Community Development	32,629	-	-	-	(32,629)	-	(32,629)
Total governmental activities	<u>99,373</u>	<u>-</u>	<u>-</u>	<u>200,973</u>	<u>101,600</u>	<u>-</u>	<u>101,600</u>
Business-type activities	<u>746,735</u>	<u>21,779</u>	<u>41,294</u>	<u>221,973</u>	<u>(461,689)</u>	<u>-</u>	<u>(461,689)</u>
Water fund	385,416	228,742	50,000	-	-	(106,674)	(106,674)
Sewer fund	<u>156,302</u>	<u>108,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,899)</u>	<u>(47,899)</u>
Total business-type activities	<u>541,718</u>	<u>337,145</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>(154,573)</u>	<u>(154,573)</u>
Total government	<u>\$ 1,288,453</u>	<u>\$ 358,924</u>	<u>\$ 91,294</u>	<u>\$ 221,973</u>	<u>(461,689)</u>	<u>(154,573)</u>	<u>(616,262)</u>
General revenues:							
Property taxes					187,611	-	187,611
Other local taxes					337,554	-	337,554
Intergovernmental revenue not restricted to specific programs					20,174	-	20,174
Interest					6,454	3,074	9,528
Rents					5,200	-	5,200
Other					37,445	21,869	59,314
Transfers					(106,680)	106,680	-
Total general revenues and transfers					<u>487,758</u>	<u>131,623</u>	<u>619,381</u>
Change in net position					26,069	(22,950)	3,119
Net position at July 1					<u>1,551,273</u>	<u>7,443,473</u>	<u>8,994,746</u>
Net position at June 30					<u>\$ 1,577,342</u>	<u>\$ 7,420,523</u>	<u>\$ 8,997,865</u>

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

TOWN OF BROOKNEAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,011,811	\$ 17,567	\$ 1,029,378
Receivables, net	16,021	-	16,021
Due from other governmental units	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,027,832</u>	<u>\$ 17,567</u>	<u>\$ 1,045,399</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued liabilities	\$ 6,072	\$ -	\$ 6,072
Accrued payroll and related liabilities	-	-	-
Deferred revenue - property taxes	<u>10,196</u>	<u>-</u>	<u>10,196</u>
Total liabilities	<u>16,268</u>	<u>-</u>	<u>16,268</u>
Fund Balances			
Nonspendable fund balance	-	-	-
Restricted fund balance	-	-	-
Assigned fund balance	-	-	-
Unassigned fund balance	<u>1,011,564</u>	<u>17,567</u>	<u>1,029,131</u>
Total fund balance	<u>1,011,564</u>	<u>17,567</u>	<u>1,029,131</u>
Total liabilities and fund balance	<u>\$ 1,027,832</u>	<u>\$ 17,567</u>	

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.	551,382
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred in the funds.	10,196
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(13,367)</u>
Net position of governmental activities	<u>\$ 1,577,342</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 187,642	\$ -	\$ 187,642
Other local taxes	337,554	-	337,554
Permits, privilege fees and regulatory licenses	-	-	-
Fines and forfeitures	20,840	-	20,840
Interest earned	6,440	14	6,454
Rental income	5,200	-	5,200
Charges for services	21,779	-	21,779
Intergovernmental	61,468	221,973	283,441
Other	<u>13,064</u>	<u>3,541</u>	<u>16,605</u>
Total revenues	<u>653,987</u>	<u>225,528</u>	<u>879,515</u>
Expenditures:			
Current			
General government administration	170,943	-	170,943
Public safety	164,263	21,000	185,263
Public works	253,653	-	253,653
Parks, recreation and cultural	32,372	-	32,372
Community development	-	99,373	99,373
Capital outlay	-	-	-
Debt service			
Principal retirement	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>621,231</u>	<u>120,373</u>	<u>741,604</u>
Excess of revenues over expenditures	<u>32,756</u>	<u>105,155</u>	<u>137,911</u>
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>(106,680)</u>	<u>(106,680)</u>
Total other financing sources (uses)	<u>-</u>	<u>(106,680)</u>	<u>(106,680)</u>
Net change in fund balances	32,756	(1,525)	31,231
Fund balances at July 1	<u>978,808</u>	<u>19,092</u>	<u>997,900</u>
Fund balances at June 30	<u>\$ 1,011,564</u>	<u>\$ 17,567</u>	<u>\$ 1,029,131</u>

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

TOWN OF BROOKNEAL, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in fund balances - total government funds	\$ 31,231
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset. This is the amount by which depreciation of \$45,536 exceeded capital outlays of \$39,962 in the current period.	(5,574)
Revenues in the Statement of Activities that do not provide or use current financial resources of governmental funds - decrease in deferred revenues.	(31)
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>443</u>
Change in net position of governmental activities	\$ <u>26,069</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 465,620	\$ 225	\$ 465,845
Receivables, net	26,075	12,665	38,740
Due from other governmental units	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>491,695</u>	<u>12,890</u>	<u>504,585</u>
Noncurrent assets			
Capital assets			
Land	22,129	-	22,129
Depreciable buildings, property and equipment, net	<u>6,834,636</u>	<u>1,106,453</u>	<u>7,941,089</u>
Total noncurrent assets	<u>6,856,765</u>	<u>1,106,453</u>	<u>7,963,218</u>
Total assets	<u>\$ 7,348,460</u>	<u>\$ 1,119,343</u>	<u>\$ 8,467,803</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 188	\$ -	\$ 188
Accrued payroll and related liabilities	-	-	-
Due to other funds	-	-	-
Current portion of long-term debt	12,946	-	12,946
Compensated absences	<u>5,388</u>	<u>4,345</u>	<u>9,733</u>
Total current liabilities	<u>18,522</u>	<u>4,345</u>	<u>22,867</u>
Noncurrent liabilities			
Long-term debt	1,022,953	-	1,022,953
Compensated absences	<u>833</u>	<u>627</u>	<u>1,460</u>
Total noncurrent liabilities	<u>1,023,786</u>	<u>627</u>	<u>1,024,413</u>
Total liabilities	<u>1,042,308</u>	<u>4,972</u>	<u>1,047,280</u>
NET POSITION			
Net investment in capital assets	5,820,866	1,106,453	6,927,319
Unrestricted	<u>485,286</u>	<u>7,918</u>	<u>493,204</u>
Total net position	<u>\$ 6,306,152</u>	<u>\$ 1,114,371</u>	<u>\$ 7,420,523</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

Year ended June 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 228,742	\$ 108,403	\$ 337,145
Other	<u>10,935</u>	<u>10,934</u>	<u>21,869</u>
Total operating revenues	<u>239,677</u>	<u>119,337</u>	<u>359,014</u>
Operating expenses:			
Salaries	55,637	37,965	93,602
Fringe benefits	29,617	20,209	49,826
Contractual services	3,750	3,750	7,500
Filter plant and sewer plant operating expense	29,579	24,662	54,241
Office supplies and expense	5,042	2,687	7,729
Repairs and miscellaneous	2,205	8,390	10,595
Supplies and chemicals	40,939	11,746	52,685
Truck and equipment operating expense	5,584	3,203	8,787
Depreciation	<u>173,424</u>	<u>43,690</u>	<u>217,114</u>
Total operating expenses	<u>345,777</u>	<u>156,302</u>	<u>502,079</u>
Operating income (loss)	<u>(106,100)</u>	<u>(36,965)</u>	<u>(143,065)</u>
Nonoperating revenues (expenses):			
Interest expense	(39,639)	-	(39,639)
Interest income	3,074	-	3,074
Campbell County grant	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total nonoperating revenues	<u>13,435</u>	<u>-</u>	<u>13,435</u>
Income (loss) before operating transfers	(92,665)	(36,965)	(129,630)
Operating transfers in	106,680	-	106,680
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	14,015	(36,965)	(22,950)
Total net position - beginning of year	<u>6,292,137</u>	<u>1,151,336</u>	<u>7,443,473</u>
Total net position - end of year	<u>\$ 6,306,152</u>	<u>\$ 1,114,371</u>	<u>\$ 7,420,523</u>

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

TOWN OF BROOKNEAL, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year ended June 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Activities:			
Receipts from customers	\$ 242,539	\$ 119,337	\$ 361,876
Payments to employees	(53,087)	(37,965)	(91,052)
Payments for employee benefits	(29,617)	(20,209)	(49,826)
Payments to suppliers	<u>(87,121)</u>	<u>(54,438)</u>	<u>(141,559)</u>
Net cash provided by operating activities	<u>72,714</u>	<u>6,725</u>	<u>79,439</u>
Noncapital Financing Activities:			
Transfers from other funds	44,457	-	44,457
Intergovernmental receipts - Campbell County grant	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net cash provided by noncapital financing activities	<u>94,457</u>	<u>-</u>	<u>94,457</u>
Capital and Related Financing Activities:			
Proceeds from issuance of debt	-	-	-
Acquisition of capital assets	-	(6,500)	(6,500)
Principal paid on debt	(5,101)	-	(5,101)
Interest paid on capital debt	<u>(56,264)</u>	<u>-</u>	<u>(56,264)</u>
Net cash used in capital and related financing activities	<u>(61,365)</u>	<u>(6,500)</u>	<u>(67,865)</u>
Investing Activities:			
Interest received	<u>3,074</u>	<u>-</u>	<u>3,074</u>
Net cash provided by investing activities	<u>3,074</u>	<u>-</u>	<u>3,074</u>
Net increase in cash and cash equivalents	108,880	225	109,105
Cash and Cash Equivalents:			
Beginning of year	<u>356,740</u>	<u>-</u>	<u>356,740</u>
End of year	<u>\$ 465,620</u>	<u>\$ 225</u>	<u>\$ 465,845</u>
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities:			
Operating loss	\$ (106,100)	\$ (36,965)	\$ (143,065)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	173,424	43,690	217,114
Change in certain assets and liabilities:			
Decrease in accounts receivable	2,862	-	2,862
Increase in accounts payable and other liabilities	<u>2,528</u>	<u>-</u>	<u>2,528</u>
Net cash provided by operating activities	<u>\$ 72,714</u>	<u>\$ 6,725</u>	<u>\$ 79,439</u>

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

Narrative Profile

The Town of Brookneal, Virginia was established in 1802. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Town Council consists of a mayor and six other council members. The Town is part of a county and has taxing powers subject to statewide restrictions and tax limits.

The Town of Brookneal provides a full range of municipal services including police, refuse collection, public improvements, planning and zoning, general administrative services, recreation, and water and sewer services. Fire and first aid services are provided by volunteer departments.

The financial statements of the Town of Brookneal, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (GASB). The more significant of the government's accounting policies are described below.

A. The Financial Reporting Entity

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

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

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

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government. The Town has no component units required to be included in its financial statements.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity. 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, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Propriety Fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings, and other revenues not directly derived from the providing of services.

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

This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The following is a brief description of the specific funds used by the Town:

Governmental Funds - Governmental Funds account for the expendable financial resources, other than those accounted for in the Proprietary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual governmental funds are:

General Fund - The General Fund is the primary operating fund of the Town and accounts for all revenues and expenditures applicable to the general operations of the Town which are not accounted for in other funds. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for services, use of money and property, and intergovernmental grants. The general fund is considered a major fund for financial reporting purposes.

Special Revenue Fund - The Special Revenue Fund accounts for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. The Town's special revenue fund accounts for financial resources related to grants requiring separate accounting.

Proprietary Funds - Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting where the measurement focus is upon determination of net income, financial position, and changes in financial position. The Town's Proprietary Funds consist of Enterprise Funds.

Enterprise Funds - The Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. The Enterprise Funds consist of the following:

The Water Fund accounts for activities associated with providing water services to customers in the Town.

The Sewer Fund accounts for activities associated with providing sewer services to customers in the Town.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statement. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the Governmental Funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide Statements of Net Position and Statements of Activities and the Proprietary Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the General and Special Revenue Funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year end. Levies made prior to the fiscal year end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

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 May 30, the Budget committee submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

3. Prior to June 30, the budgets for the general and enterprise funds are legally enacted through passage of an Appropriations Resolution. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means of financing them.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriations for each department or category can be revised only by the Town council. The Budget Committee is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the general and enterprise funds.
6. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Appropriations lapse on June 30, for all Town units.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market funds, certificates of deposit and investments with maturities of three months or less.

F. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance at June 30 is composed of the following:

General Fund

Real estate tax	\$ 7,399
Personal Property tax	<u>8,068</u>
Total	<u>\$ 15,467</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

G. 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Machinery and equipment	5 - 20 years
Water and sewer system	50 years
Public domain infrastructure	20 - 50 years

GASB no. 34 requires the Town to report and depreciate infrastructure assets. Infrastructure assets include roads, sidewalks, and similar items.

H. Capitalization of Interest

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fixed assets. Interest is not capitalized on the construction of assets used in governmental activities.

I. Deferred 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 consisted of delinquent property taxes not collected within 45 days of year end.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

J. Compensated Absences

The Town has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. 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 and expenses. Actual results could differ from those estimates.

Note 2. Deposits

All cash of the Town of Brookneal, Virginia is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, or covered by Federal Depository Insurance.

Note 3. Receivables

Receivables for the Town's individual major funds are as follows:

	<u>General</u>	Water and <u>Sewer</u>	<u>Total</u>
Taxes	\$ 30,085	\$ -	\$ 30,085
Accounts	<u>1,403</u>	<u>38,740</u>	<u>40,143</u>
Gross receivables	31,488	38,740	70,228
Less allowance for uncollectible	<u>15,467</u>	<u>-</u>	<u>15,467</u>
Net total receivables	<u>\$ 16,021</u>	<u>\$ 38,740</u>	<u>\$ 54,761</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 4. Due from Other Governmental Units

At the end of the current fiscal year, no amounts were due from other governmental units.

Note 5. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 180,088	\$ -	\$ -	\$ 180,088
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not depreciated	<u>180,088</u>	<u>-</u>	<u>-</u>	<u>180,088</u>
Capital assets, depreciated				
Buildings and improvements	691,092	-	-	691,092
Machinery and equipment	489,725	39,962	-	529,687
Public domain infrastructure	<u>164,920</u>	<u>-</u>	<u>-</u>	<u>164,920</u>
Total capital assets, depreciated	<u>1,345,737</u>	<u>39,962</u>	<u>-</u>	<u>1,385,699</u>
Less accumulated depreciation for:				
Buildings and improvements	538,594	7,860	-	546,454
Machinery and equipment	299,929	33,058	-	332,987
Public domain infrastructure	<u>130,346</u>	<u>4,618</u>	<u>-</u>	<u>134,964</u>
Total accumulated depreciation	<u>968,869</u>	<u>45,536</u>	<u>-</u>	<u>1,014,405</u>
Total capital assets, depreciated, net	<u>376,868</u>	<u>(5,574)</u>	<u>-</u>	<u>371,294</u>
Governmental activities capital assets, net	<u>\$ 556,956</u>	<u>\$ (5,574)</u>	<u>\$ -</u>	<u>\$ 551,382</u>

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 5. Capital Assets (Continued)

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ <u>22,129</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>22,129</u>
Total capital assets, not depreciated	<u>22,129</u>	<u>-</u>	<u>-</u>	<u>22,129</u>
Capital assets, depreciated				
Water system and Sewer system	<u>10,231,567</u>	<u>68,723</u>	<u>-</u>	<u>10,300,290</u>
Total capital assets, depreciated	<u>10,231,567</u>	<u>68,723</u>	<u>-</u>	<u>10,300,290</u>
Less accumulated depreciation	<u>2,142,087</u>	<u>217,114</u>	<u>-</u>	<u>2,359,201</u>
Total capital assets, depreciated, net	<u>8,089,480</u>	<u>(148,391)</u>	<u>-</u>	<u>7,941,089</u>
Business-type activities capital assets, net	\$ <u>8,111,609</u>	\$ <u>(148,391)</u>	\$ <u>-</u>	\$ <u>7,963,218</u>

Depreciation was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 7,103
Public safety	11,435
Public works	26,741
Parks, recreational and cultural	<u>257</u>
Total depreciation expense - governmental activities	\$ <u>45,536</u>
Business-type activities	
Water	\$ 173,424
Sewer	<u>43,690</u>
Total depreciation expense - business-type activities	\$ <u>217,114</u>

TOWN OF BROOKNEAL, 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:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Compensated Absences	\$ <u>13,810</u>	\$ <u>-</u>	\$ <u>443</u>	\$ <u>13,367</u>	\$ <u>9,744</u>
Total	\$ <u>13,810</u>	\$ <u>-</u>	\$ <u>443</u>	\$ <u>13,367</u>	\$ <u>9,744</u>

Business-Type Activities

Gen. Obligation Bonds	\$ 1,041,000	\$ -	\$ 5,101	\$ 1,035,899	\$ 12,946
Compensated absences	<u>8,643</u>	<u>2,550</u>	<u>-</u>	<u>11,193</u>	<u>9,733</u>
Total	\$ <u>1,049,643</u>	\$ <u>2,550</u>	\$ <u>5,101</u>	\$ <u>1,047,092</u>	\$ <u>22,679</u>

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

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>General Obligation Bonds</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ -	\$ -	\$ 12,946	\$ 39,146	\$ 12,946	\$ 39,146
2015	-	-	13,431	38,661	13,431	38,661
2016	-	-	13,827	38,265	13,827	38,265
2017	-	-	14,454	37,638	14,454	37,638
2018	-	-	14,998	37,094	14,998	37,094
2019-2023	-	-	83,814	176,646	83,814	176,646
2024-2028	-	-	100,913	159,547	100,913	159,547
2029-2033	-	-	121,880	138,580	121,880	138,580
2034-2038	-	-	147,263	113,197	147,263	113,197
2039-2043	-	-	178,148	82,312	178,148	82,312
2044-2048	-	-	215,742	44,718	215,742	44,718
2049-2051	-	-	118,483	5,742	118,483	5,742
Totals	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,035,899</u>	\$ <u>911,546</u>	\$ <u>1,035,899</u>	\$ <u>911,546</u>

Details of long-term indebtedness are as follows:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding</u>	
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>
General Obligation Bond	4.125%	2011	2051	\$ 866,000	\$ -	\$ 862,117
General Obligation Bond	2.250%	2011	2051	\$ 175,000	\$ -	\$ 173,782

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7. Defined Benefit Pension Plan

Plan Description

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

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

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

Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.

Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 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.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7. Defined Benefit Pension Plan (Continued)

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

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

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by 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. In addition, the Town of Brookneal 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 11.36% of the annual covered payroll.

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2013, the Town's annual pension cost for VRS of \$40,754 was equal to the required and actual contributions. The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 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 2.50% per year for prior plan members and 2.25% for new members. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as 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.

Three Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension Cost</u> <u>(APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2013	\$ 40,754	100.0%	\$ -
June 30, 2012	31,045	100.0	-
June 30, 2011	26,247	100.0	-

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 77.39% funded. The actuarial accrued liability for benefits was \$1,373,714, and the actuarial value of assets was \$1,063,057, resulting in an unfunded actuarial accrued liability (UAAL) of \$310,657. The covered payroll (annual payroll of active employees covered by the plan) was \$267,991, and the ratio of the UAAL to the covered payroll was 115.92%.

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

TOWN OF BROOKNEAL, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 8. Property Taxes

The major sources of property taxes are real estate and personal property taxes. The assessments are the responsibility of Campbell County, while billing and collection are the Town's responsibilities.

Property taxes are levied annually on assessed values as of January 1 and are due by December 5. Personal property taxes do not create a lien on property; however, the Town utilizes the DMV Stop program for individuals having outstanding personal property taxes.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of 10% of the unpaid tax is due for late payment. Interest is accrued at 10% for the initial year of delinquency, and thereafter at the maximum annual rate authorized by the Internal Revenue Code Section 6621(b). The effective tax rates per \$100 of assessed value for the year ended June 30 were as follows:

Real estate	\$ 0.17
Personal property	\$ 1.70
Machinery and tools	\$ 1.70

Note 9. Risk Management

The Town of Brookneal is insured for Worker's Compensation, General Liability, Health and other risks. The risk management programs are as follows:

Worker's Compensation Insurance is provided through the Virginia Municipal League. During fiscal year 2013, total premiums paid were approximately \$8,300. Benefits are those afforded through the Commonwealth of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based on covered payroll, job rates and claims experience.

The Town provides general liability and other insurance through policies with the Virginia Municipal League. General liability and business automobile coverage have a \$1,000,000 limit per occurrence. Boiler and machinery has a \$2,000,000 limit. Property insurance is covered per statement of values and is approximately \$3,000,000. Police professional liability and public officials liability insurance with a \$1,000,000 limit are covered through a policy with the Commonwealth of Virginia.

There were no significant reductions in insurance coverages from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

The Town provides healthcare coverage for employees through a policy with Anthem Blue Cross Blue Shield. The Town contributes a percentage of the required premium amount for single coverage for each employee. The Town also pays a percentage of the coverage for dependents and spouses of employees. Total premiums paid for fiscal year 2013 were approximately \$57,000.

REQUIRED
SUPPLEMENTARY INFORMATION

TOWN OF BROOKNEAL, VIRGINIA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

Year ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 193,295	\$ 193,295	\$ 187,642	\$ (5,653)
Other local taxes	300,018	321,517	337,554	16,037
Permits, privilege fees and regulatory licenses	-	-	-	-
Fines and forfeitures	5,000	9,845	20,840	10,995
Interest	10,000	10,000	6,440	(3,560)
Rents	4,800	4,800	5,200	400
Charges for services	23,000	23,000	21,779	(1,221)
Intergovernmental	47,621	47,621	61,468	13,847
Other	<u>2,050</u>	<u>2,050</u>	<u>13,064</u>	<u>11,014</u>
Total revenues	<u>585,784</u>	<u>612,128</u>	<u>653,987</u>	<u>41,859</u>
Expenditures:				
Current:				
General government administration	171,356	170,370	170,943	(573)
Public safety	149,791	154,095	164,263	(10,168)
Public works	239,329	256,120	253,653	2,467
Parks, recreation and cultural	25,308	31,543	32,372	(829)
Community development	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>585,784</u>	<u>612,128</u>	<u>621,231</u>	<u>(9,103)</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>32,756</u>	<u>32,756</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,756</u>	<u>\$ 32,756</u>

TOWN OF BROOKNEAL, VIRGINIA

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN

JUNE 30, 2013

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c) UAAL as a Percentage of
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Covered Payroll</u>
June 30, 2012	\$1,063,057	\$1,373,714	\$310,657	77.39%	\$267,991	115.92%
June 30, 2011	1,064,862	1,304,609	239,747	81.62	223,061	107.48
June 30, 2010	1,045,390	1,240,842	195,452	84.25	249,704	78.27
June 30, 2009	1,043,814	1,155,053	111,239	90.37	289,286	38.45
June 30, 2008	1,029,004	1,064,148	35,144	96.70	282,278	12.45

COMPLIANCE SECTION

M. JERRY REYNOLDS, P.C.

Certified Public Accountants

801 Church Street
Lynchburg, Virginia 24504

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 Brookneal, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookneal, Virginia, as of and for the year ended June 30, 2013, which collectively comprise the Town of Brookneal, Virginia's basic financial statements and have issued our report thereon dated October 18, 2013.

Internal Control over Financial Reporting

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

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

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

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*, continued

Compliance and Other Matters

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

Purpose of this Report

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

m. Jeff Reynolds, P.C.

Lynchburg, Virginia
October 18, 2013