

TOWN OF LOVETTSVILLE, VIRGINIA DIRECTORY OF OFFICIALS

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FINANCIAL REPORT YEAR ENDED JUNE 30, 2013

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the Town Council Town of Lovettsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, 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.

Auditors' 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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, and each major fund of Town of Lovettsville, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement Nos. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

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 4-10, budgetary comparison information, and schedule of pension funding progress 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Lovettsville, Virginia's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate 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 supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2013, on our consideration of the Town of Lovettsville, 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 Town of Lovettsville, Virginia's internal control over financial reporting and compliance.

Mobinson, Farmer, Car Associates

(Charlottesville, Virginia

December 36, 2013

Management's Discussion and Analysis

As management of the Town of Lovettsville (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Please read it in conjunction with the Town's basic financial statements, which follow this section.

Financial Highlights

- The assets of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$11.45 million (*net position*). Of this amount, \$4.83 million (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$26,398, of which the governmental activities accounted for a \$44,613 increase and business-type activities accounted for a \$18,215 decrease.
- The unassigned ending fund balance for the Town's governmental funds is \$2.03 million. Total general fund balance was also made up of \$1,467 in nonspendable funds, \$1.8 million in restricted funds, and \$83,859 in committed funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2.03 million, or 252% of governmental fund expenditures less any capital outlay projects funded with bond proceeds.
- The Town's total debt decreased by \$430,686 during the current fiscal year. This is due to expected principal payments.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

Overview of the Financial Statements: (Continued)

Government-wide financial statements: (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety (the Town does not have its own public safety department but does receive pass through funds from the state), public works, parks, recreation and cultural, and community development. The business-type activities are for public utilities. The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements

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

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

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

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

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 39 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows by \$11.45 million at the close of the most recent fiscal year. A portion of the Town's net position (\$6.62 million, 58% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, machinery and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the Town's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

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

Town of Lovettsville, Virginia Summary of Net Position As of June 30, 2013

	Govern Activ		Business Activi		Total			
	2013	2012	2013	2012	2013	2012		
Current and other assets Capital assets	\$ 4,425,650 \$ 1,818,997	4,502,539 \$ 1,540,456	3,013,394 \$ 9,756,466	3,074,618 \$ 10,062,391	7,439,044 \$ 11,575,463	7,577,157 11,602,847		
Total assets	\$ 6,244,647	6,042,995 \$	12,769,860 \$	13,137,009 \$	19,014,507 \$	19,180,004		
Long-term liabilities outstanding Other liabilities Total liabilities	\$ 1,940,647 \$ 68,511 \$ 2,009,158 \$	77,816	4,862,757 \$ 249,370 5,112,127 \$	5,230,361 \$ 230,700 5,461,061 \$	6,803,404 \$ 317,881 7,121,285 \$	7,234,090 308,516 7,542,606		
Deferred inflows of resources	\$ 442,079 \$	212,653 \$	- \$	\$	442,079 \$	212,653		
Net position: Net investment in capital assets Unrestricted	\$ 1,721,876 \$ 2,071,534	2,283,681	4,895,969 \$ 2,761,764	4,840,990 \$ 2,834,958	6,617,845 \$ 4,833,298	6,306,106 5,118,639		
Total net position	\$ 3,793,410 \$	3,748,797 \$	7,657,733 \$	7,675,948 \$	11,451,143 \$	11,424,745		

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

As noted previously, the Town's overall (government and business-type activities) net position increased by \$26,398 during the current fiscal year.

Government-wide Financial Analysis: (Continued)

Governmental activities increased the Town's net position by \$44,613. The following table summarizes the Town's Statement of Activities:

Town of Lovettsville, Virginia Changes in Net Position As of June 30, 2013

	Governmental			Business	-type			
		Activities		Activi		Total		
		2013	2012	2013	2012	2013	2012	
Revenues:			_					
Program revenues:								
Charges for services	\$	13,260 \$	42,792 \$	705,286 \$	609,050 \$	718,546 \$	651,842	
Operating grants and								
contributions		9,203	9,000	-	-	9,203	9,000	
Capital grants and								
contributions		-	-	432,700	83,400	432,700	83,400	
General revenues:								
Property taxes		420,024	440,412	2,503	2,503	422,527	442,915	
Other taxes		337,672	334,209	-	-	337,672	334,209	
Unrestricted revenues from the								
use of money and property		13,164	13,890	105,963	112,107	119,127	125,997	
Miscellaneous		7,405	15,916	14,804	26,101	22,209	42,017	
Grants and contributions not								
restricted to specific programs	_	13,959	13,703	-		13,959	13,703	
Total revenues	\$_	814,687 \$	869,922 \$	1,261,256 \$	833,161 \$	2,075,943 \$	1,703,083	
Expenses:								
General government								
administration	\$	482,488 \$	428,173 \$	- \$	- \$	482,488 \$	428,173	
Public safety		8,150	8,280	-	-	8,150	8,280	
Public works		130,344	132,976	-	-	130,344	132,976	
Parks, recreation and cultural		19,791	-	-	-	19,791	-	
Community development		54,346	329,371	-	-	54,346	329,371	
Interest on long-term debt		74,955	123,105	-	-	74,955	123,105	
Water and sewer fund		<u> </u>	-	1,279,471	1,232,901	1,279,471	1,232,901	
Total expenses	\$_	770,074 \$	1,021,905 \$	1,279,471 \$	1,232,901 \$	2,049,545 \$	2,254,806	
Increase/(decrease) in net position	\$_	44,613 \$	(151,983) \$	(18,215) \$	(399,740) \$	26,398 \$	(551,723)	
Net position-beginning of year,								
as adjusted	\$_	3,748,797 \$	3,900,780 \$	7,675,948\$	8,075,688 \$	11,424,745 \$	11,976,468	
Net position-end of year	\$	3,793,410 \$	3,748,797 \$	7,657,733 \$	7,675,948 \$	11,451,143 \$	11,424,745	

The following analysis separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities decreased by \$55,235 and expenses decreased by \$251,831. Some contributing factors driving these results include:

Revenues

• Decrease in the amounts received from charges for services and property taxes.

Government-wide Financial Analysis: (Continued)

Governmental Activities: (Continued)

Expenses

- Interest expense decreased \$48,150 due to the repayment of bonds.
- General Government Administration overall increased by \$54,315. An increase in costs for salaries and benefits attributed to the overall increase.
- Community development decreased by \$275,025. Decreased cost can be attributed to capitalization of project expenditures. These projects include the Pavilion, Quarterbranch Park, and East Broad Streetscape Projects.

Business-type Activities

Revenues for the Town's business-type activities have increased by \$428,095 (51%) and expenses increased by \$46,570 (4%). The factors driving these results include:

Revenues

• Water and sewer charges for services increased by \$96,236. This increase is due to a 2.5% increase in rates and additional homes from new construction. Capital Contributions (tap fees) increased by \$349,300. This increase is a result of new construction at the Town Center development.

Expenses

• Water and sewer expenses overall increased by \$46,570. The most significant increase in this category was for repairs and maintenance.

Financial Analysis of the Town's Funds

As noted earlier, The Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Town consolidates the General Fund and General Capital Fund for financial reporting.

Government Fund: The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and the balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

- The Town's FY 2013 general fund revenues were less than those of FY2012 by \$49,398. This decrease is primarily attributed to a decrease in delinquent property tax collections and charges for services.
- In FY2013, the general fund's operating expenditures exceeded revenues by \$302,842 (see exhibit 5) when capital outlays and debt service are factored in.
- At the end of the current fiscal year, unassigned fund balance of the General fund was \$2,032,231.

Proprietary Fund: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the water and sewer funds at the end of the year amounted to \$2.76 million. The total net position decreased by \$18,215 from the prior year.

As the Town completed the year, its proprietary funds (presented in the balance sheet as Exhibit 7) reported net position of \$7,657,733 million, which is a decrease of \$18,215 over last year's total of \$7,675,948. Significant changes in net position are noted in the previous section under "business-type" activities.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$11.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, utility system and machinery and equipment as well as construction in progress.

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

		Governmental	Activities	Business-type	e Activities	Total		
	_	2013	2012	2013	2012	2013	2012	
Land	\$	960,877 \$	960,877 \$	154,200 \$	154,200 \$	1,115,077 \$	1,115,077	
Buildings		79,411	82,299	-	-	79,411	82,299	
Land improvements		208,781	224,054	-	-	208,781	224,054	
Machinery and equipment		13,794	19,516	-	-	13,794	19,516	
Infrastructure		50,493	53,748	-	-	50,493	53,748	
Utility system		-	-	9,504,621	9,867,540	9,504,621	9,867,540	
Contruction in progress	_	505,641	199,962	97,645	40,651	603,286	240,613	
Total	\$	1,818,997 \$	1,540,456 \$	9,756,466 \$	10,062,391 \$	11,575,463 \$	11,602,847	

Additional information on the Town's capital assets can be found in Note 5 on pages 28 and 29 of this report.

Long-term obligations: At the end of the current fiscal year, the Town had total outstanding debt of \$6.8 million and details are summarized in the following table:

Town of Lovettsville, Virginia
Outstanding Obligations
For the Year Ended June 30, 2013

		Governn Activi		Business Activi		Total		
		2013	2012	2013	2012	2013	2012	
Bonds Payable:								
General obligation bonds	\$	1,890,000 \$	1,960,000 \$	- \$	- \$	1,890,000 \$	1,960,000	
VRA bonds		-	-	4,860,497	5,227,398	4,860,497	5,227,398	
Premium on bond issuance		24,953	26,617	-	-	24,953	26,617	
Compensated absences		25,694	17,112	2,260	2,963	27,954	20,075	
Total	\$_	1,940,647 \$	2,003,729 \$	4,862,757 \$	5,230,361 \$	6,803,404 \$	7,234,090	

Debt associated with governmental activities decreased by \$63,082 while debt associated with business-type activities decreased by \$367,604. The decrease is attributed to the repayment of principal.

The Town is subject to a statutory debt limitation. The legal debt margin is limited to 10% of total assessed value. The margin is computed as all bonded debt and long-term notes except for enterprise indebtedness over total assessed value of taxed real property. The Town was in compliance with debt limitation as of June 30, 2013.

Additional information on the Town's long-term debt and compliance can be found in Note 7.

Economic Factors and Next Year's Budgets and Rates

The Town anticipates a steadily improving economy with increasing growth expected over the course of the next year. The following is a summary of the Town of Lovettsville's budget for FY2014.

General Fund

The Town consolidates the General Fund and General Capital Fund for financial reporting.

General Fund budgeted revenues increased by \$25,145 (\$725,475 in FY2014 compared to \$700,330 in FY2013) or 3.6 percent. Budgeted property tax revenues increased by \$10,520. While the property tax rate remains the same at 21 cents per hundred, the tax base increased slightly with reassessment and additional construction. Budgeted sales tax revenue increased by \$23,000 based on expected increased distributions from Loudoun County.

General Fund budgeted expenditures increased by \$25,145 (\$725,475 in FY 2014 compared to \$700,330 in FY 2013) or 3.6 percent. Budgeted salaries and benefits increased \$72,225 to fund staff and council salary increases and anticipated higher outlays for retirement and healthcare benefits. Refuse service expenditures increased by \$11,850 as a result of renegotiated terms with the Town's trash disposal contractor and additional customers to service from home construction.

Utility Fund

Utility Fund budgeted revenues increased by \$60,085 (\$800,485 in FY2014 compared to \$740,400 in FY2013) or 8.1 percent. Budgeted water and sewer service has increased \$61,675. This additional revenue is attributable to a 4.8 percent rate increase effective October 2013 and anticipated new home constructions added to the system. The Town was conservative in budgeting \$8,000 less in reimbursable expenses.

Utility Fund budgeted expenditures increased by \$60,085 (\$800,485 in FY2014 compared to \$740,400 in FY2013) or 8.1 percent. Contractual services increased by \$41,330 as the Town budgeted \$13,000 less for engineering services and \$46,800 more for system operation by Loudoun Water, while budgeting \$6,000 more for sampling analysis. The Town's Utility Maintenance and Repair budget was increased by \$16,190 for anticipated increased costs for sludge hauling, I & I maintenance, and service contracts.

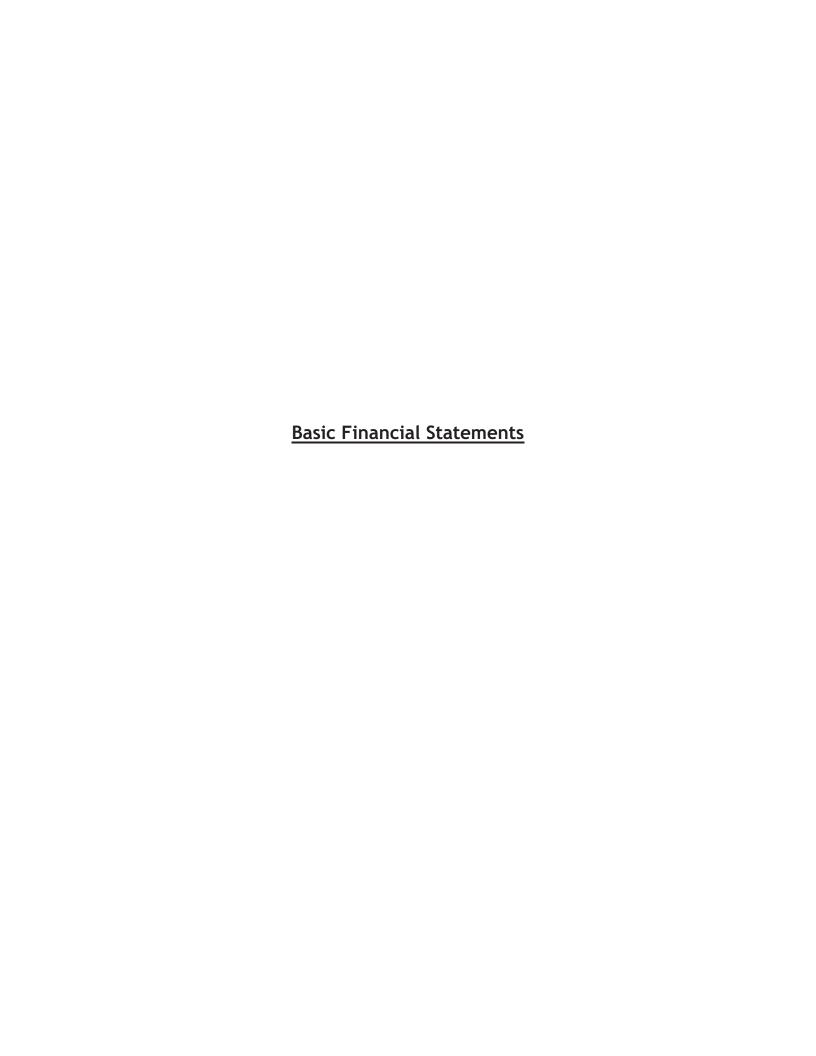
Capital Projects Fund

The Town's FY2014 Capital Improvement Plan includes \$1,758,309 in spending for general capital projects/debt financing, and \$631,928 for utility capital projects/debt financing. The projects include water tower repairs, water facility improvements, bike path network, improvements to East Broad Way, Quarter branch Park development, storm ditch improvement, Town square and green improvements, South Church St improvements and town office expansion. Funding for these projects will come from a variety of sources including Utility Fund reserves, General Fund reserves, Transportation Enhancement grant, dedicated meals and cigarette taxes, debt financing, and sewer tap fees.

In conclusion, the proposed budget is balanced in accordance with state statutes, and revenues based on conservative estimates, while expenditures are based on historical data, as well as actual proposed costs.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Office at 6 East Pennsylvania Avenue, Lovettsville, Virginia.





Statement of Net Position As of June 30, 2013

	Primary Government					
	-	Governmental		Business-type		
	-	Activities		Activities	_	Total
ASSETS						
Cash and cash equivalents	\$	1,949,336	\$	2,954,435 \$		4,903,771
Receivables (net of allowance for uncollectibles):	·	, ,	•	, , , .		, ,
Taxes receivable		455,272		-		455,272
Other local receivables		15,050		-		15,050
Accounts receivable		-		125,015		125,015
Internal balances		149,203		(149,203)		-
Due from other governmental units		37,489		-		37,489
Prepaid items		1,467		-		1,467
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents		1,817,833		83,147		1,900,980
Capital assets (net of accumulated depreciation):						
Land		960,877		154,200		1,115,077
Buildings		79,411		-		79,411
Land improvements		208,781		-		208,781
Machinery and equipment		13,794		-		13,794
Infrastructure		50,493		-		50,493
Utility system		-		9,504,621		9,504,621
Construction in progress	-	505,641		97,645		603,286
Total assets	\$_	6,244,647	\$	12,769,860 \$		19,014,507
LIABILITIES						
Accounts payable	\$	29,386	\$	126,475 \$		155,861
Accrued expenses		5,016		621		5,637
Accrued interest payable		34,109		39,127		73,236
Deposits held		-		83,147		83,147
Long-term liabilities:						
Due within one year		79,233		379,001		458,234
Due in more than one year	_	1,861,414		4,483,756		6,345,170
Total liabilities	\$_	2,009,158	\$	5,112,127 \$		7,121,285
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-property taxes	\$_	442,079	\$	- \$		442,079
NET POSITION	=					
Net investment in capital assets	\$	1,721,877	Ċ	4,895,969 \$		6,617,846
Unrestricted	Ş	2,071,533	Ş	2,761,764		4,833,297
	-	2,071,333		2,701,704		4,033,27/
Total net position	\$_	3,793,410	\$	7,657,733 \$	_	11,451,143

				Program Reven	ues		,	(pense) Revenue ges in Net Positio			
			Charges	Operating	Capital	al Primary Gov			overnment		
Functions/Programs		Expenses	for Services	Grants and Contributions	Grants and Contributions		overnmental Activities	Business-type Activities	Total		
PRIMARY GOVERNMENT:											
Governmental activities:											
General government											
administration	\$	482,488 \$	169 \$	- 5	-	\$	(482,319) \$	- \$	(482,319)		
Public safety		8,150	-	9,203	-		1,053	-	1,053		
Public works		130,344	-	-	-		(130,344)	-	(130,344)		
Parks, recreation, and cultural		19,791	-	-	-		(19,791)	-	(19,791)		
Community development		54,346	13,091		-		(41,255)	-	(41,255)		
Interest on long-term obligations	_	74,955		-			(74,955)		(74,955)		
Total governmental activities	\$_	770,074 \$	13,260 \$	9,203 \$	-	\$	(747,611) \$	\$	(747,611)		
Business-type activities:											
Water and Sewer	\$_	1,279,471 \$	705,286 \$	<u> </u>	432,700	\$	- \$	(141,485) \$	(141,485)		
Total business-type activities	\$_	1,279,471 \$	705,286 \$		432,700	\$	\$	(141,485) \$	(141,485)		
Total primary government	\$_	2,049,545 \$	718,546 \$	9,203	432,700	\$	(747,611) \$	(141,485) \$	(889,096)		
General revenues:											
General property taxes						\$	420,024 \$	2,503 \$	422,527		
Other local taxes:											
Local sales and use tax							156,745	-	156,745		
Consumers' utility tax							15,331	-	15,331		
Meals tax							65,014	-	65,014		
Vehicle decals							30,291	-	30,291		
Cigarette tax							18,845	-	18,845		
Business licenses							42,271	-	42,271		
Other local taxes							9,175	-	9,175		
Unrestricted revenues from use	of m	oney and pr	operty				13,164	105,963	119,127		
Miscellaneous							7,405	14,804	22,209		
Grants and contributions not res	trict	ted to specif	ic programs			_	13,959	-	13,959		
Total general revenues						\$	792,224 \$	123,270 \$	915,494		
Change in net position							44,613	(18,215)	26,398		
Net position - beginning, as restat	ted					_	3,748,797	7,675,948	11,424,745		
Net position - ending						\$	3,793,410 \$	7,657,733 \$	11,451,143		



Balance Sheet Governmental Funds As of June 30, 2013

	_	General
ASSETS		
Cash and cash equivalents (Note 1)	\$	1,949,336
Receivables (net of allowance for uncollectibles):		, ,
Taxes receivable		455,272
Other local receivables		15,050
Due from other funds		149,203
Due from other governmental units (Note 3)		37,489
Prepaid items		1,467
Restricted assets:		
Temporarily restricted:		
Cash and cash equivalents		1,817,833
Total assets	\$_	4,425,650
LIABILITIES		
Accounts payable	\$	29,386
Accrued expenses	_	5,016
Total liabilities	\$_	34,402
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	\$	455,858
FUND BALLANGES		
FUND BALANCES		
Nonspendable:	\$	1 467
Prepaid items Restricted:	Ş	1,467
Construction- East Broad Streetscape Improvements		1,817,833
Committed:		1,017,033
Capital project- Quarterbranch Park Project		83,859
Unassigned		2,032,231
Onassigned	_	2,032,231
Total fund balances	\$_	3,935,390
Total liabilities, deferred inflows, and fund balances	\$_	4,425,650

Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Position As of June 30, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds

\$ 3,935,390

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the Town as a whole.

1,818,997

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds.

Unavailable revenue related to property taxes

13,779

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. All liabilities - both current and long-term - are reported in the Statement of Net Position.

General obligation bonds	\$ (1,890,000)
Premium on bond issuance	(24,953)
Accrued interest payable	(34,109)
Compensated absences	(25,694) (1,974,756)

Net position of governmental activities

\$ 3,793,410

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2013

		General
REVENUES		_
General property taxes	\$	416,053
Other local taxes		337,672
Permits, privilege fees, and regulatory licenses		13,091
Revenue from the use of money and property		13,164
Charges for services		169
Miscellaneous		7,405
Intergovernmental revenues:		
Commonwealth		23,162
Total revenues	\$	810,716
EXPENDITURES		
Current:		
General government administration	\$	456,396
Public safety		8,150
Public works		120,716
Parks, recreation, and cultural		19,791
Community development		38,985
Capital outlay		321,040
Debt service:		
Principal		70,000
Interest and other fiscal charges		78,480
Total expenditures	\$	1,113,558
Excess (deficiency) of revenues over		
(under) expenditures	\$	(302,842)
Net change in fund balances	\$	(302,842)
Fund balances - beginning	· 	4,238,232
Fund balances - ending	\$	3,935,390

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds

\$ (302,842)

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. Details supporting this adjustment are as follows:

 Capital outlay
 \$ 305,679

 Depreciation expense
 (27,138)
 278,541

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

3,971

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal retired on general obligation bonds

70,000

(5,057)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

(Increase)/decrease in premium on bond issuance1,664(Increase)/decrease in accrued interest payable1,861(Increase)/decrease in compensated absences(8,582)

Change in net position of governmental activities

44,613

Statement of Net Position Proprietary Fund For the Year Ended June 30, 2013

		Enterprise Fund
		Water and Sewer Fund
ASSETS		_
Current assets: Cash and cash equivalents Accounts receivables (net of allowances	\$	2,954,435
for uncollectibles):		125,015
Restricted current assets: Cash and cash equivalents	_	83,147
Total current assets	\$_	3,162,597
Noncurrent assets: Capital assets (net of accumulated depreciation): Land Utility system Construction in progress	\$	154,200 9,504,621 97,645
Total capital assets, net	\$	9,756,466
Total noncurrent assets	\$	9,756,466
Total assets	\$	12,919,063
LIABILITIES Current liabilities:	_	
Accounts payable Accrued expenses	\$	126,475 621
Due to other funds		149,203
Accrued interest payable		39,127
Customer deposits Bonds payable, current portion		83,147 378,775
Compensated absences, current portion	_	226
Total current liabilities	\$	777,574
Noncurrent liabilities:		
Bonds payable, net of current portion Compensated absences, net of current portion	\$ _	4,481,722 2,034
Total noncurrent liabilities	\$_	4,483,756
Total liabilities	\$_	5,261,330
NET POSITION Net investment in capital assets Unrestricted	\$	4,895,969 2,761,764
Total net position	\$	7,657,733
Total liabilities and net position	\$	12,919,063

Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund For the Year Ended June 30, 2013

	Enterprise Fund	
		Water and Sewer Fund
OPERATING REVENUES:		
Charges for services:		
Charges for services and connection fees	\$	705,286
Frye court sewer district tax		2,503
Miscellaneous		14,804
Total operating revenues	\$	722,593
OPERATING EXPENSES:		
Personnel services	\$	39,112
Fringe benefits		7,145
Contractual services/maintenance		337,258
Materials & supplies		159,611
Utilities		60,151
Repairs and maintenance		110,558
Other charges		30,842
Depreciation		371,919
Total operating expenses	\$	1,116,596
Operating income (loss)	\$	(394,003)
NONOPERATING REVENUES (EXPENSES):		
Interest earned	\$	12,683
Antennae lease		93,280
Interest and fiscal charges		(162,875)
Total nonoperating revenues (expenses)	\$	(56,912)
Income (loss) before contributions		
and transfers	\$	(450,915)
Capital contributions and grants	\$	432,700
Change in net position	\$	(18,215)
Net position at beginning of year		7,675,948
Net position at end of year	\$	7,657,733

Statement of Cash Flows Proprietary Fund For the Year Ended June 30, 2013

	_E	Enterprise Fund	
		Water and Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES: Receipts from customers and users Payments to suppliers Payments to and on behalf of employees	\$	813,490 (682,032) (46,960)	
Net cash provided by (used for) operating activities	\$	84,498	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES: Acquisition and construction of capital assets Capital contributions Repayment of long-term obligations Interest paid on long-term obligations	\$	(65,994) 432,700 (366,901) (156,247)	
Net cash provided by (used for) capital and related financing activities	\$	(156,442)	
CASH FLOWS FROM INVESTING ACTIVITIES: Interest and dividends received	\$	12,683	
Net increase (decrease) in cash and cash equivalents	\$	(59,261)	
Cash and cash equivalents - beginning		3,096,843	
Cash and cash equivalents - ending	\$	3,037,582	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss) Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	\$	(394,003)	
Depreciation expense Antennae lease Changes in operating assets and liabilities:		371,919 93,280	
(Increase) decrease in account receivables (Increase) decrease in prepaid items (Increase) decrease in retainage payable Increase (decrease) in accounts payable Increase (decrease) in accrued expenses Increase (decrease) in customer deposits Increase (decrease) in compensated absences		(6,506) 2,472 (5,000) 13,916 (377) 9,500 (703)	
Net cash provided by (used for) operating activities	\$	84,498	

Notes to Financial Statements As of June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

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

Individual Component Unit Disclosures

The Town has no component units.

Related Organizations

The Town has no related organizations.

Jointly Governed Organizations

The Town has no jointly governed organizations.

B. Government-wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

<u>Statement of Net Position</u> - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units, if applicable. Governments will report all capital assets, in the government-wide Statement of Net Position and will 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.

<u>Statement of Activities</u> - 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).

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

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.

<u>Budgetary comparison schedules</u> - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another 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. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results.

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

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

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

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

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

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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

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

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

General Fund

The General Fund is the primary operating fund of the Town. The fund accounts for and reports all revenues and expenditures of the Town which are not accounted for and reported in other funds. The General Capital Fund is consolidated with the General Fund for financial reporting.

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

Enterprise Funds

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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.

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

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Budgets and Budgetary Accounting

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

- 1. Prior to March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
- 2. Public hearings are conducted to obtain citizen comments.
- 3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- 4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriation for each fund can be revised only by the Town Council.
- 5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
- 6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that enterprise fund budgets are adopted on the modified accrual basis of accounting.
- 7. Appropriations lapse on June 30 for all Town units.
- 8. All budget data presented in the accompanying financial statements is as amended and approved by Town Council.
- 9. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

Excess expenditures over appropriations:

		Excess of Expenditures over	
Fund		Appropriations	
General General Government Administration	\$	8,877	

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less.

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F. Investments

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

G. Restricted Assets

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

H. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets for the year ended June 30, 2013 was immaterial.

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

Buildings	50 Years
Utility Plant & Lines	50 Years
Automobiles	5-7 Years
Machinery and Equipment	7-10 Years
Infrastructure	75 Years
Land Improvements	50 Years

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any deferred outflows of resources as of June 30, 2013.

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

I. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

J. Compensated Absences

Vested or accumulated vacation leave is reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be paid upon retirement, which is liquidated in the Town general fund. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25% of the unused balance.

K. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental and business-type activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

L. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans).

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. Receivables and Payables (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. At June 30, 2013 no allowance was recorded. At June 30, 2013 receivable balances were as follows:

Governmental Activities:

Local:		
Real estate taxes receivable	\$	455,272
Other taxes receivable		12,428
Interest receivable	_	2,622
Total for Governmental Activities	\$	470,322
Business-Type Activities:		
<u>Local:</u> Water billings	\$_	125,015

M. Property Taxes

Real property is assessed by Loudoun County, Virginia at its value on January 1 and is payable annually on December 5th. The Town does not collect a personal property tax. Taxes attach as an enforceable lien as of the date assessed. The Town bills and collects its own property taxes based on the assessed values provided by the County.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

P. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Q. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

R. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance 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 fund balance amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance amounts a government intends to use for a specific purpose; intent can be
 expressed by the governing body or by an official or body to which the governing body delegates the
 authority;
- Unassigned fund balance amounts that are available for any purpose; positive amounts are only reported in the general fund.

In accordance with GASB Statement 54, when fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town 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).

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

S. <u>Financial Reporting of Deferred Outflows of Resources</u>, <u>Deferred Inflows of Resources</u>, <u>and Net Position</u>, Statement No. 63 of the Governmental Accounting Standards Board

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

T. <u>Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting</u> Standards Board

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Details of this restatement can be found in Note 9.

U. <u>Upcoming Pronouncements</u>

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town has not determined the impact of this pronouncement on its financial statements.

NOTE 2-DEPOSITS AND INVESTMENTS:

Deposits:

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

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments:

Statutes authorize the local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2013, the Town had no investments.

NOTE 3-DUE FROM OTHER GOVERNMENTAL UNITS:

Commonwealth of Virginia: Communications tax State fire program funds	\$ 2,160 8,000	
County of Loudoun: Sales tax	27,329	
Total	\$37,489	

NOTE 4—INTERFUND OBLIGATIONS:

Details of the Town's interfund receivables and payables as of June 30, 2013 are as follows:

	Due to		Due from
\$	-	\$	149,203
_	149,203		-
\$_	149,203	\$	149,203
		\$ - 149,203	\$ - \$

The above interfund obligations represent temporary advances between funds or amounts allocable to one fund and not yet transferred between the funds.

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 5—CAPITAL ASSETS:

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

		Balance June 30, 2012		Additions		Deletions		Balance June 30, 2013
Governmental Activities:	_		_		-		-	
Capital assets, not being depreciated: Land Construction in progress	\$_	960,877 199,962	\$	305,679	\$ _	- -	\$	960,877 505,641
Total capital assets, not being depreciated	\$_	1,160,839	\$_	305,679	\$_	-	\$	1,466,518
Capital assets, being depreciated: Buildings Land Improvements Machinery and equipment Infrastructure	\$	113,695 256,866 48,220 78,932	_	- ! - - -	_	-	\$	113,695 256,866 48,220 78,932
Total capital assets being depreciated	\$_	497,713	\$_	-	\$_	-	\$_	497,713
Less accumulated depreciation for: Buildings Land Improvements Machinery and equipment Infrastructure	\$	(31,396) (32,812) (28,704) (25,184)		(2,888) (15,273) (5,722) (3,255)	\$_	- - -	\$	(34,284) (48,085) (34,426) (28,439)
Total accumulated depreciation	\$_	(118,096)	\$_	(27,138)	\$_	-	\$	(145,234)
Total capital assets, being depreciated, net	\$_	379,617	\$_	(27,138)	\$_	-	\$	352,479
Governmental activities capital assets, net	\$_	1,540,456	\$ <u></u>	278,541	\$ <u>_</u>	-	Ş	1,818,997

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 5—CAPITAL ASSETS: (CONTINUED)

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

		Balance June 30,				Balance June 30,
	_	2012	Additions	Deletions		2013
Business-type Activities:						
Capital assets, not being depreciated: Land Construction in progress	\$	154,200 40,651	\$ - 56,994	\$ -	\$	154,200 97,645
Total capital assets, not being depreciated	\$_	194,851	\$ 56,994	\$ -	\$	251,845
Capital assets, being depreciated: Utility system	\$_	13,059,990	\$ 9,000	\$ -	\$_	13,068,990
Total capital assets being depreciated	\$_	13,059,990	\$ 9,000	\$ -	\$_	13,068,990
Less accumulated depreciation for: Utility system	\$_	(3,192,450)	\$ (371,919)	\$ -	\$_	(3,564,369)
Total accumulated depreciation	\$_	(3,192,450)	\$ (371,919)	\$ -	\$_	(3,564,369)
Total capital assets, being depreciated, net	\$_	9,867,540	\$ (362,919)	\$ -	\$_	9,504,621
Business-type activities capital assets, net	\$_	10,062,391	\$ (305,925)	\$ -	\$	9,756,466

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

Governmental activities: General government administration Public works	\$ 17,510 9,628
Total depreciation expense - governmental activities	\$ 27,138
Business-type activities: Water and sewer fund	\$ 371,919
Total depreciation expense - business-type activities	\$ 371,919

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 6-OPERATING LEASES:

The Town has operating leases with various companies for communication equipment on the water tank. Future minimum lease payment receipts are as follows:

Year EndingJune 30,	 Amount
2013 2014	\$ 35,665 21,904
Total	\$ 57,569

NOTE 7—LONG-TERM OBLIGATIONS:

Governmental Activities:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2013:

	_	Balance July 1, 2012	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2013
General Obligation Bond	\$	1,960,000 \$	- \$	(70,000) \$	1,890,000
Premium on Bond Issuance		26,617	-	(1,664)	24,953
Compensated Absences (Note 8)	-	17,112	8,582	<u> </u>	25,694
Total	\$	2,003,729 \$	8,582 \$	(71,664) \$	1,940,647

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Governmental Activities: (Continued)

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

Year Ending			
June 30,		Principal	Interest
			_
2014	\$	75,000 \$	92,718
2015		75,000	89,643
2016		80,000	85,631
2017		85,000	82,351
2018		85,000	78,866
2019-2023		490,000	338,883
2024-2028		585,000	221,040
2029-2031		415,000	55,440
	_		
Total	\$	1,890,000 \$	1,044,572

Details of Long-term Obligations:

General Obligation Bond:	_	Total Amount	-	Amount Due Within One Year
\$2,025,000 General obligation bonds issued December 7, 2010 payable in annual principal payments ranging from \$65,000 to \$145,000 and semi-annual interest payments ranging from 3% to 6.561% with final payment due February 1, 2031.	\$	1,890,000	\$	75,000
Total general obligation bond	\$_	1,890,000	\$	75,000
Premium on bond issuance	\$	24,953	\$	1,664
Compensated absences (Note 8)	\$_	25,694	\$_	2,569
Total governmental obligations	\$_	1,940,647	\$	79,233

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2013:

	_	Balance July 1, 2012	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2013
General Obligation Bonds	\$	5,227,398 \$	- \$	(366,901) \$	4,860,497
Compensated Absences (Note 8)	_	2,963	-	(703)	2,260
Total	\$_	5,230,361 \$	<u> </u>	(367,604) \$	4,862,757

Annual requirements to amortize the long-term obligations indebtedness and related interest are as follows:

Year Ending June 30,	Princip	pal Intere	est
2014	\$ 378	,775 \$ 148	3,276
2015	389	,445 139	9,986
2016	395	,137 131	1,201
2017	400	,852 122	2,123
2018	411	,592 123	3,011
2019-2023	1,515	,060 419	9,298
2024-2028	1,317	,780 157	7,417
2029-2030	51	,856 2	2,801
Total	\$ 4,860	,497 \$ 1,244	4,113

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities: (Continued)

<u>Details of Long-term Obligations:</u>

General Obligation Bonds:	_	Total Amount	_	Amount Due Within One Year
defici at Obtigation bolius.				
\$3,499,572 Virginia Resource Authority bonds issued December 21, 1999 payable in semi-annual installments of \$91,980 bearing no interest. Final payment due October 1, 2020.	\$	1,379,698	\$	183,959
\$515,000 Virginia Resource Authority bonds issued May 21, 2003 payable in annual installments ranging from \$25,000 to \$45,000. Interest ranging from 3.1% to 4.1% payable in semi-annual installments. Final payment due April 1, 2018.		200,000		35,000
\$3,450,000 Virginia Resource Authority bond issued May 23, 2007 payable in annual installments ranging from \$110,000 to \$255,000. Interest ranging from 4.1% to 4.875% payable in semi-annual installments. Final payment due October 1, 2027.		2,850,000		140,000
\$492,040 Virginia Resource Authority bond issued October 23, 2009 payable in semi-annual installments of \$17,284 bearing interest at 3.35%. Final payment due March 1, 2030. At June 30, 2011 only \$467,283 of this loan had been received.		430,799		19,816
Total general obligation bonds	\$	4,860,497	\$	378,775
Compensated absences (Note 8)	\$_	2,260	\$_	226
Total enterprise activities	\$_	4,862,757	\$_	379,001

NOTE 8—COMPENSATED ABSENCES:

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

Town employees earn annual leave at various rates. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25% of the unused balance. Accumulated vacation and banked holidays are paid upon termination up to a maximum of 240 hours. The Town's general fund has outstanding accrued leave pay totaling \$25,694 and the Enterprise Funds have outstanding accrued leave pay of \$2,260.

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 9-BEGINNING NET POSITION ADJUSTEMENT:

Governmental Funds:

Beginning net position has been adjusted to reflect the implementation of GASB 65 to write-off bond issue costs. Details of the adjustment are as follows:

General Government						
Beginning net position, July 1, 2012	\$	3,802,741				
Adjustment to write-off bond issue costs	_	(53,944)				
Beginning net position July 1, 2012, as adjusted	\$_	3,748,797				

NOTE 10-UNAVAILABLE REVENUE:

Unavailable revenue represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

<u>Unavailable Property Tax Revenue</u> - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$454,928 (including 2nd ½ tax billings of \$441,149 not due until December 5) at June 30, 2013.

<u>Prepaid Property Taxes</u> - Property taxes due subsequent to June 30, 2013 but paid in advance by the taxpayers totaled \$930 at June 30, 2013.

NOTE 11-RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the association for its workers compensation insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

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

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 12-DEFINED BENEFIT PENSION PLAN:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

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

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 12—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

A. 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 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 <u>Code of Virginia</u> (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the <u>Code of Virginia</u> (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees 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 <u>Code of Virginia</u> and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 11.45% of the annual covered payroll.

C. Annual Pension Cost

For the fiscal year ended June 30, 2013, the Town's annual pension cost of \$30,851 was equal to the required and actual contributions.

Three-Year Trend Information							
Fiscal		Annual Percentage		Net			
Year		Pension of APC		Pension			
Ending		Cost (APC)	Contributed	Obligation			
June 30, 2011 June 30, 2012 June 30, 2013	\$	- 4,163 30,851	100% \$ 100% 100%				

Notes to Financial Statements As of June 30, 2013 (Continued)

NOTE 12—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

C. Annual Pension Cost (Continued)

The fiscal year 2013 required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2012 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.6% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2012 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 100.00% funded. The actuarial accrued liability for benefits was \$0, and the actuarial value of assets was \$7,425, resulting in a funded actuarial accrued liability (UAAL) of \$(7,425) - excess funded. The covered payroll (annual payroll of active employees covered by the plan) was \$229,409 and the ratio of the UAAL to the covered payroll was (3.24%).

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 13-LITIGATION:

At June 30, 2013, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

Required Supplementary Information

Note to Required Supplementary Information:

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

Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and Actual- General Fund For the Year Ended June 30, 2013

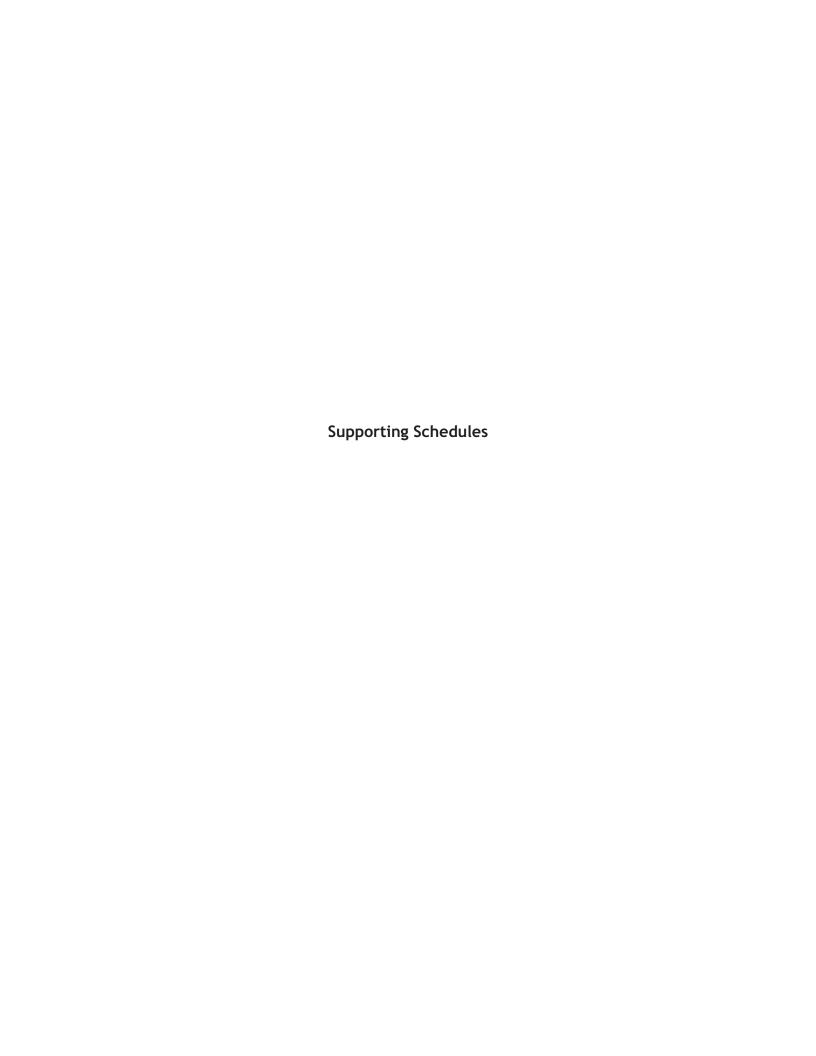
		General Fund								
	_	Original Budget		Final Budget		Actual		Variance Favorable (Unfavorable)		
REVENUES:							_			
General property taxes	\$	408,480 \$	•	408,480	\$	416,053	Ş	7,573		
Other local taxes/revenues		326,200		326,200		337,672		11,472		
Permits, privilege fees, and regulatory licenses		11,150		11,150		13,091		1,941		
Revenues from use of money and property		10,200		10,200		13,164		2,964		
Charges for services		8,700		8,700		169		(8,531)		
Miscellaneous revenues Intergovernmental revenues:		1,500		1,500		7,405		5,905		
Commonwealth		22,300		22,300		23,162		862		
Federal	_	331,000	_	331,000	_	-		(331,000)		
Total Revenues	\$_	1,119,530	<u> </u>	1,119,530	\$_	810,716	\$	(308,814)		
EXPENDITURES:										
Current:										
General government administration	\$	447,519 \$	5	447,519	\$	456,396	\$	(8,877)		
Public safety		8,500		8,500		8,150		350		
Public works		130,624		130,624		120,716		9,908		
Parks, recreation, and cultural		31,500		31,500		19,791		11,709		
Community development		39,000		39,000		38,985		15		
Capital outlay		1,031,000		1,031,000		321,040		709,960		
Debt service:										
Principal		70,000		70,000		70,000		-		
Interest and finance charges	_	78,480	_	78,480	_	78,480		-		
Total Expenditures	\$_	1,836,623	S_	1,836,623	\$_	1,113,558	\$	723,065		
Excess (deficiency) of revenues over										
(under) expenditures	\$_	(717,093)	<u> </u>	(717,093)	\$_	(302,842)	\$	414,251		
Net change in fund balances	\$	(717,093) \$	5	(717,093)	\$	(302,842)	\$	414,251		
Fund Balance at Beginning of Year	_	717,093	_	717,093	_	4,238,232		3,521,139		
Fund Balance at End of Year	\$	<u> </u>	S	-	\$_	3,935,390	\$	3,935,390		

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

Virginia Retirement System Schedule of Pension Funding Progress For the Year Ended January 00, 1900

	Actuarial	Actuarial	Unfunded Actuarial			UAAL as %
Actuarial	Value of	Accrued	Accrued	Funded	Annual	of Covered
Valuation	Assets	Liability	Liability	Ratio	Covered	Payroll
Date	(AVA)	(AAL)	(UAAL) (b-a)	(a/b)	Payroll	(c/e)
	(a)	(b)	(c)	(d)	(e)	(f)
06/30/12	5 7,425 \$	- \$	(7,425)	100.00%	229,409	(3.24%)





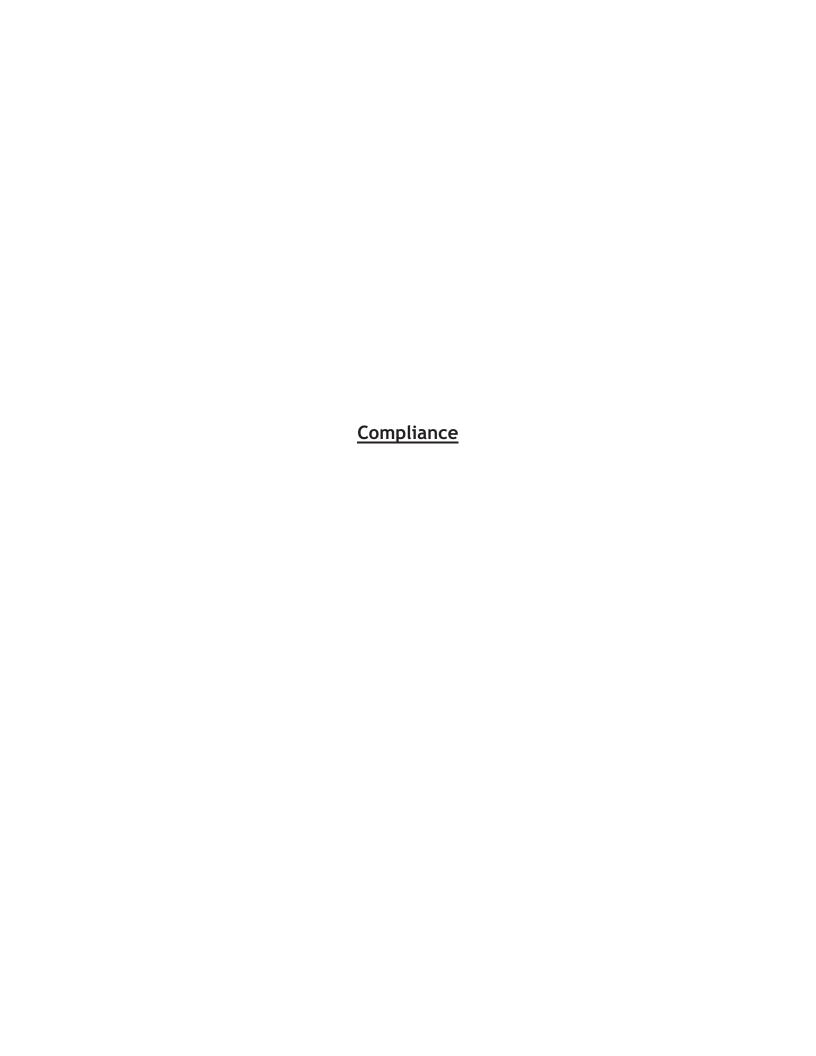
Schedule of Revenues - Budget and Actual Governmental Funds

For the Year Ended June 30, 2013

Fund, Major and Minor Revenue Source		Original Budget	Final Budget		Actual		Variance with Final Budget - Positive (Negative)
General Fund:							
Revenue from local sources:							
General property taxes:	ċ	405,980 \$	405,980	ċ	41.4.041	ċ	9.064
Real property taxes Penalties and interest	\$	2,500	2,500	Ş	414,041 2,012	Ş	8,061 (488)
Total general property taxes	_ \$	408,480 \$	408,480	ς	416,053	ς_	7,573
	Ÿ_	100, 100 \$	100, 100	· ~ —	110,033	~_	7,373
Other local taxes/revenues Local sales and use taxes	\$	149,000 \$	149,000	ċ	156,745	ċ	7,745
Consumers' utility taxes	Ş	13,200	13,200	Ş	15,745	Ş	2,131
Cigarette tax		18,000	18,000		18,845		845
Motor vehicle licenses		26,000	26,000		30,291		4,291
Bank franchise taxes		10,000	10,000		9,175		(825)
Meals tax		60,000	60,000		65,014		5,014
Business License		50,000	50,000		42,271		(7,729)
Total other local taxes	\$	326,200 \$	326,200	\$	337,672	\$	11,472
Permits, privilege fees, and regulatory licenses:	_						
Planning and development fees	\$	10,800 \$	10,800	\$	11,341	\$	541
Conditional use permits		350	350		1,750		1,400
Total permits, privilege fees, and regulatory licenses	\$	11,150 \$	11,150	\$	13,091	\$	1,941
Revenue from use of money and property:							_
Revenue from use of money	\$	10,200 \$	10,200	\$	13,164	\$	2,964
•	· –	·_	,	·		·	
Charges for services: Miscellaneous	\$	8,700 \$	8,700	Ċ	169	Ċ	(8,531)
	٧_	5,700 5	0,700	٠,	107	٧_	(0,331)
Miscellaneous revenue:					4.500		4 500
Paver donations	\$	- \$	-	\$	4,500	\$	4,500
Miscellaneous	_	1,500	1,500		2,905	_	1,405
Total miscellaneous revenue	\$_	1,500 \$	1,500	_	7,405	-	5,905
Total revenue from local sources	\$_	766,230 \$	766,230	\$	787,554	\$_	21,324
Intergovernmental revenues:							
Revenue from the Commonwealth:							
Noncategorical aid:							
Rolling stock tax	\$	- \$	-	\$	295	Ş	295
Communication taxes	_	14,300	14,300	_	13,664	_	(636)
Total noncategorical aid	\$_	14,300 \$	14,300	\$	13,959	\$_	(341)
Categorical aid:							
Fire Program Grants	\$	8,000 \$	8,000	\$	8,000	\$	-
Litter Control Grant	_		-		1,203	_	1,203
Total categorical aid	\$_	8,000 \$	8,000	\$	9,203	\$_	1,203
Total revenue from the Commonwealth	\$	22,300 \$	22,300	\$	23,162	\$	862
Revenue from the Federal Government: Categorical aid:							
TEA -21 grant	\$_	331,000 \$	331,000	\$	-	\$_	(331,000)
Total revenue from the Federal Government	\$	331,000 \$	331,000	\$	-	\$	(331,000)
Total General Fund	\$	1,119,530 \$	1,119,530		810,716	-	(308,814)
Total Primary Government	` <u>=</u> \$	1,119,530 \$	1,119,530	-	810,716	-	
Total Filmary Government	→=	1,117,J3U \$	1,117,330		010,710	- ۲	(308,814)

Schedule of Expenditures - Budget and Actual Governmental Funds For the Year Ended June 30, 2013

Fund, Function, Activity, and Elements		Original Budget		Final Budget	Actual		Variance with Final Budget - Positive (Negative)	
General Fund:								
General government administration:								
Legislative:		447.540	÷	447.540.6	454 204	,	(0.077)	
Legislative, general, and financial administration	\$_	447,519	٠,	447,519 \$	456,396	- >_	(8,877)	
Public safety:								
Law enforcement and traffic control:								
Police department	\$_	500	\$_	500 \$	150	\$_	350	
Fire and rescue services:								
Volunteer fire departments	\$	8,000	\$_	8,000 \$	8,000	\$_	-	
Total public cafety	\$	8,500	ċ	8,500 \$	0 150	ċ	350	
Total public safety	ې	6,300	- ۲	6,500 \$	8,150	- ^{>} –	330	
Public works:								
General properties	\$_	130,624	\$_	130,624 \$	120,716	\$_	9,908	
Parks, recreation and cultural:								
Parks and recreation	\$	31,500	\$_	31,500 \$	19,791	\$_	11,709	
Community development:								
Planning and community development	\$	39,000	\$_	39,000 \$	38,985	\$_	15	
Capital expenditures:								
Capital outlay	\$	1,031,000	\$	1,031,000 \$	321,040	\$	709,960	
Debt service:								
Principal	\$	70,000	\$	70,000 \$,	\$	-	
Interest	_	78,480	-	78,480	78,480	_		
Total Debt Service	\$	148,480	\$	148,480 \$	148,480	\$	-	
Total General Fund	<u> </u>	1,836,623	\$	1,836,623 \$	1,113,558	\$	723,065	
	_		_			-		
Total Primary Government	\$_	1,836,623	\$ =	1,836,623 \$	1,113,558	\$ = =	723,065	



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of the Town Council Town of Lovettsville, 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 the *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, and each major fund of Town of Lovettsville, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Lovettsville, Virginia's basic financial statements and have issued our report thereon dated December 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Lovettsville, 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 Town of Lovettsville, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Lovettsville, Virginia's 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.

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 (2013:1 and 2013:2) described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Lovettsville, 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*.

Town of Lovettsville, Virginia's Response to Findings

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

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.

Charlottesville, Virginia
December 26, 2013

Schedule of Findings and Responses For the Year Ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Significant deficiency(ies) identified?

None reported

Noncompliance material to financial statements noted?

Section II - Financial Statement Findings

Repeat of Prior Year Findings:

2013:1

Criteria: A key concept of internal controls is the segregation of duties. No one employee should

have access to both accounting records and related assets.

Condition: The Town's current internal control system does not provide adequate segregation of

duties over accounting functions.

Effect of Condition: There is more than a remote likelihood that a material misstatement of the financial

statements will not be prevented or detected by the Town's internal controls over

financial reporting.

Cause of Condition: One employee is responsible for initiating, recording, and posting all transactions.

Recommendation: It is recommended that the Town assign accounting duties to separate employees.

Management's response: Management routinely evaluates internal controls and the segregation of duties. As

necessary, Management implements controls to mitigate risks where the cost does not outweigh the benefits. Moreover, Town Council and Officials actively participate in

the Town's financial operations.

Schedule of Findings and Responses For the Year Ended June 30, 2013

Section II - Financial Statement Findings: (Continued)

2013:2

Criteria: The preparation of financial statements in conformity with accounting principles

generally accepted in the United States of America requires an adequate level of

technical expertise.

Condition: The Town currently lacks sufficient internal controls over the preparation of the

financial statements to ensure the financial statements are prepared in conformity

with accounting principles generally accepted in the United States of America.

Effect of Condition: There is more than a remote likelihood that a material misstatement of the financial

statements will not be prevented or detected by the Town's internal controls over

financial reporting.

Cause of Condition: Town staff do not have the skill, nor does the Town utilize a third-party consultant, to

provide adequate internal controls over financial statement preparation to ensure the

information provided for audit is accurate.

Recommendation: It is recommended that Town staff obtain additional technical training or a third-party

consultant is used to ensure the preparation of financial statements free of material

misstatement.

Management's response: Management is cognizant of this weakness and has evaluated the costs and benefits of

additional controls. Presently, Management accepts the weakness of controls over the preparation of financial statements. Furthermore, Management reviews and approves

the financial statements prepared by the auditors.