



TOWN OF MONTEREY, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

TOWN OF MONTEREY, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

COUNCIL

Janice S. Warner, Mayor

Francis Fenn, Vice Mayor

Jack Kilgallen

Dale Hammer

Ronald Wilmer

OFFICIALS

Cynthia Kelley

Clerk/Treasurer

**TOWN OF MONTEREY, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014**

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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 MONTEREY, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Town of Monterey, Virginia, as of and for the year ended June 30, 2014, 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. 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 Monterey, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents 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. 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Monterey, 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 May 15, 2015 on our consideration of Town of Monterey, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Monterey, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
May 15, 2015

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 201,666	\$ 124,854	\$ 326,520
Receivables (net of allowance for uncollectibles):			
Taxes receivable	965	-	965
Accounts receivable	2,649	15,048	17,697
Internal balances	56,595	(56,595)	-
Due from other governmental units	2,181	-	2,181
Capital assets (net of accumulated depreciation):			
Machinery and equipment	5,147	4,406	9,553
Construction in progress	-	55,503	55,503
Infrastructure	24,607	3,944,761	3,969,368
Total assets	<u>\$ 293,810</u>	<u>\$ 4,087,977</u>	<u>\$ 4,381,787</u>
LIABILITIES			
Accounts payable	\$ 431	\$ 5,233	\$ 5,664
Payroll taxes payable	1,445	-	1,445
Customers' deposits	-	1,150	1,150
Accrued interest payable	-	1,033	1,033
Long-term liabilities:			
Due within one year	-	11,848	11,848
Due in more than one year	-	819,319	819,319
Total liabilities	<u>\$ 1,876</u>	<u>\$ 838,583</u>	<u>\$ 840,459</u>
NET POSITION			
Net investment in capital assets	\$ 29,754	\$ 3,173,503	\$ 3,203,257
Unrestricted	262,180	75,891	338,071
Total net position	<u>\$ 291,934</u>	<u>\$ 3,249,394</u>	<u>\$ 3,541,328</u>

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

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Town of Monterey, Virginia

Statement of Activities
Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 60,315	\$ -	\$ -	\$ -
Public safety	19,000	-	18,000	-
Public works	53,564	-	-	-
Parks, recreation, and cultural	1,300	-	-	-
Total governmental activities	<u>\$ 134,179</u>	<u>\$ -</u>	<u>\$ 18,000</u>	<u>\$ -</u>
Business-type activities:				
Water and sewer	\$ 288,671	\$ 166,815	\$ -	\$ 129,999
Total business-type activities	<u>\$ 288,671</u>	<u>\$ 166,815</u>	<u>\$ -</u>	<u>\$ 129,999</u>
Total primary government	<u>\$ 422,850</u>	<u>\$ 166,815</u>	<u>\$ 18,000</u>	<u>\$ 129,999</u>

General revenues:

General property taxes

Other local taxes:

Local sales and use taxes

Consumers' utility taxes

Consumption tax

Bank stock taxes

Local lodging taxes

Unrestricted revenues from use of money and property

Grants and contributions not restricted to specific programs

Transfers

Total general revenues

Change in net position

Net position - beginning

Net position - ending

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (60,315)	\$ -	\$ (60,315)
(1,000)	-	(1,000)
(53,564)	-	(53,564)
(1,300)	-	(1,300)
<u>\$ (116,179)</u>	<u>\$ -</u>	<u>\$ (116,179)</u>
\$ -	\$ 8,143	\$ 8,143
\$ -	\$ 8,143	\$ 8,143
<u>\$ (116,179)</u>	<u>\$ 8,143</u>	<u>\$ (108,036)</u>
\$ 32,822	\$ -	\$ 32,822
4,160	-	4,160
6,715	-	6,715
1,016	-	1,016
77,005	-	77,005
934	-	934
854	1,080	1,934
9,251	-	9,251
4,220	(4,220)	-
<u>\$ 136,977</u>	<u>\$ (3,140)</u>	<u>\$ 133,837</u>
\$ 20,798	\$ 5,003	\$ 25,801
271,136	3,244,391	3,515,527
<u>\$ 291,934</u>	<u>\$ 3,249,394</u>	<u>\$ 3,541,328</u>

FUND FINANCIAL STATEMENTS

Balance Sheet
 Governmental Funds
 June 30, 2014

	General Fund
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 201,666
Receivables (net of allowance for uncollectibles):	
Taxes receivable	965
Accounts receivable	2,649
Due from other funds	56,595
Due from other governmental units	2,181
Total assets	\$ <u>264,056</u>
 LIABILITIES	
Accounts payable	\$ 431
Payroll taxes payable	1,445
Total liabilities	\$ <u>1,876</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 429
Total deferred inflows of resources	\$ <u>429</u>
 FUND BALANCES	
Unassigned	\$ 261,751
Total fund balances	\$ <u>261,751</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>264,056</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2014

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	261,751
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		29,754
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds		<u>429</u>
Net position of governmental activities	\$	<u><u>291,934</u></u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2014

	<u>General</u>
REVENUES	
General property taxes	\$ 32,910
Other local taxes	89,830
Revenue from the use of money and property	854
Intergovernmental revenues:	
Commonwealth	27,251
Total revenues	\$ <u>150,845</u>
EXPENDITURES	
Current:	
General government administration	\$ 57,621
Public safety	19,000
Public works	23,514
Parks, recreation, and cultural	1,300
Nondepartmental:	
Capital projects	34,270
Total expenditures	\$ <u>135,705</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>15,140</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	\$ 4,220
Total other financing sources (uses)	\$ <u>4,220</u>
Net change in fund balances	\$ 19,360
Fund balances - beginning	242,391
Fund balances - ending	\$ <u><u>261,751</u></u>

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

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$	19,360
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. This is the amount by which the capital outlays exceeded depreciation in the current period:		1,526
General property tax revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds.		<u>(88)</u>
Change in net position of governmental activities	\$	<u><u>20,798</u></u>

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

Statement of Net Position
 Proprietary Fund
 June 30, 2014

	Enterprise Fund
	Water & Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 124,854
Accounts receivable, net of allowance for uncollectibles	15,048
Total current assets	<u>\$ 139,902</u>
Noncurrent assets:	
Capital assets:	
Water and sewer system	\$ 4,765,726
Machinery and equipment	47,982
Construction in progress	55,503
Less accumulated depreciation	(864,541)
Total capital assets	<u>\$ 4,004,670</u>
Total noncurrent assets	<u>\$ 4,004,670</u>
Total assets	<u>\$ 4,144,572</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 5,233
Customers' deposits	1,150
Accrued interest payable	1,033
Due to other funds	56,595
Bonds payable - current portion	11,848
Total current liabilities	<u>\$ 75,859</u>
Noncurrent liabilities:	
Bonds payable - net of current portion	<u>\$ 819,319</u>
Total noncurrent liabilities	<u>\$ 819,319</u>
Total liabilities	<u>\$ 895,178</u>
NET POSITION	
Net investment in capital assets	\$ 3,173,503
Unrestricted	75,891
Total net position	<u><u>\$ 3,249,394</u></u>

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

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Proprietary Fund
 Year Ended June 30, 2014

	Enterprise Fund
	Water & Sewer
OPERATING REVENUES	
Charges for services:	
Water revenues	\$ 57,617
Sewer revenues	109,198
Total operating revenues	<u>\$ 166,815</u>
OPERATING EXPENSES	
Personnel services	\$ 41,788
Fringe benefits	11,010
Contractual services	31,882
Sewer plant supplies	14,602
Water plant supplies	1,618
Repairs and maintenance	26,785
Office expense	1,799
Vehicle expenses	4,166
Licenses, permits, dues	4,215
Miscellaneous expenses	1,183
Depreciation	112,588
Total operating expenses	<u>\$ 251,636</u>
Operating income (loss)	<u>\$ (84,821)</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue	
Interest income	\$ 1,080
Interest and fiscal charges	<u>(37,035)</u>
Total nonoperating revenues (expenses)	<u>\$ (35,955)</u>
Income (loss) before contributions and grants	<u>\$ (120,776)</u>
Capital contributions and construction grants	\$ 129,999
Transfers out	<u>\$ (4,220)</u>
Change in net position	<u>\$ 5,003</u>
Net position - beginning	\$ 3,244,391
Net position - ending	<u><u>\$ 3,249,394</u></u>

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

Statement of Cash Flows
 Proprietary Fund
 Year Ended June 30, 2014

	Enterprise Fund
	Water & Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 172,007
Payments to suppliers	(35,541)
Payments to and for employees	(52,798)
Net cash provided by (used for) operating activities	\$ 83,668
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	\$ (4,220)
Net cash provided by (used for) noncapital financing activities	\$ (4,220)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisitions and construction of capital assets	\$ (227,660)
Principal payments on bonds	(11,320)
Grants - capital projects	129,999
Interest payments	(37,053)
Net cash provided by (used for) capital and related financing activities	\$ (146,034)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	\$ 1,080
Net cash provided by (used for) investing activities	\$ 1,080
Net increase (decrease) in cash and cash equivalents	\$ (65,506)
Cash and cash equivalents - beginning	\$ 190,360
Cash and cash equivalents - ending	\$ 124,854
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (84,821)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 112,588
(Increase) decrease in accounts receivable	3,012
(Increase) decrease in prepaid items	1,780
Increase (decrease) in customer deposits	400
Increase (decrease) in accounts payable related only to operations	4,618
Increase (decrease) in due to other funds	46,091
Total adjustments	\$ 168,489
Net cash provided by (used for) operating activities	\$ 83,668

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

TOWN OF MONTEREY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. FINANCIAL REPORTING ENTITY:

The financial statements of Town of Monterey, Virginia (the Town) conform with accounting principles generally accepted in the United States of America as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the Town's accounting policies are described below.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Town's financial position. There are no separate governmental units that meet the criteria as a component unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the 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 support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments 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.

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales, which are collected by the state and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town. Utility taxes are collected by the utilities and remitted directly to the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

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

The government reports the following major proprietary fund:

The *enterprise fund* provides maintenance to the water and sewer lines and pump stations and derives the majority of its revenues through user charges and fees.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: (CONTINUED).

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

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.

Budgetary comparison schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in 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.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE:

1) Deposits

For purposes of reporting cash flows, the Town considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2) Property Taxes Receivable

Property taxes are recognized as a receivable when levied as of November 1st and are due on or before December 5th. That portion of the taxes receivable which is not collected within 60 days is shown as unavailable revenue. All unpaid taxes are subject to penalty of 5% after December 6th and 8% if not paid by January 1st of the following year.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE: (CONTINUED)

3) Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are recorded at estimated fair market value at the date of donation.

Maintenance, repairs and minor renewals are charged to operations when incurred. Expenditures/expenses which materially increase values or extend useful lives are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2014.

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

Water and sewer system	20-40 years
Machinery and equipment	3-25 years
Infrastructure	20-30 years

4) Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

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

5) Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The costs of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE: (CONTINUED)

6) 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.

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.

The Town establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. 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 the 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).

7) 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE: (CONTINUED)

8) 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) until then. The Town did not have any deferred outflows of resources as of June 30, 2014.

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 and is deferred and recognized as an inflow of resources in the period that the amount becomes available.

9) Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources, in order to calculate the amounts to report as restricted – net position and unrestricted – net position in the 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.

10) Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

E. BUDGETARY INFORMATION

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 Mayor 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 department level or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Mayor is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units.
8. All budgetary data presented in the accompanying financial statements is the original budget at June 30. Several supplemental appropriations were necessary during the year and at year end because they were not included in the original budget.

TOWN OF MONTEREY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

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. According, all deposits are considered fully collateralized.

Investments

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP). At June 30, 2014, the Town had no investments.

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TOWN OF MONTEREY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 3—CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Transfers and Additions	Transfers and Retirements	Balance June 30, 2014
<u>Governmental activities:</u>				
Capital assets, being depreciated:				
Machinery and Equipment	\$ 9,526	\$ -	\$ -	\$ 9,526
Infrastructure	26,211	4,220	-	30,431
Total capital assets being depreciated	<u>\$ 35,737</u>	<u>\$ 4,220</u>	<u>\$ -</u>	<u>\$ 39,957</u>
Accumulated depreciation for:				
Machinery and Equipment	\$ 4,102	\$ 277	\$ -	\$ 4,379
Infrastructure	3,407	2,417	-	5,824
Total accumulated depreciation	<u>\$ 7,509</u>	<u>\$ 2,694</u>	<u>\$ -</u>	<u>\$ 10,203</u>
Governmental activities capital assets, net	<u>\$ 28,228</u>	<u>\$ 1,526</u>	<u>\$ -</u>	<u>\$ 29,754</u>
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Construction in Progress	\$ 102,783	\$ 231,880	\$ 279,160	\$ 55,503
Capital assets, being depreciated:				
Water and Sewer System	\$ 4,490,786	\$ 274,940	\$ -	\$ 4,765,726
Machinery and Equipment	47,982	-	-	47,982
Total capital assets being depreciated	<u>\$ 4,538,768</u>	<u>\$ 274,940</u>	<u>\$ -</u>	<u>\$ 4,813,708</u>
Less accumulated depreciation for:				
Water and Sewer System	\$ 709,454	\$ 111,511	\$ -	\$ 820,965
Machinery and Equipment	42,499	1,077	-	43,576
Total accumulated depreciation	<u>\$ 751,953</u>	<u>\$ 112,588</u>	<u>\$ -</u>	<u>\$ 864,541</u>
Total capital assets being depreciated, net	<u>\$ 3,786,815</u>	<u>\$ 162,352</u>	<u>\$ -</u>	<u>\$ 3,949,167</u>
Business-type activities capital assets, net	<u>\$ 3,889,598</u>	<u>\$ 394,232</u>	<u>\$ 279,160</u>	<u>\$ 4,004,670</u>

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

<u>Governmental activities:</u>	
General government administration	\$ <u>2,694</u>
<u>Business-type activities:</u>	
Water and Sewer	\$ <u>112,588</u>

TOWN OF MONTEREY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 4—LONG-TERM OBLIGATIONS:

Changes in Long-term Obligations

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2014:

	Balance July 1, 2013	Issuances	Retirements	Balance June 30, 2014
Business-type activities:				
General obligation bonds				
Rural Utility Services, \$367,000 bond	\$ 334,768	\$ -	\$ 5,262	\$ 329,506
Rural Utility Services, \$520,000 bond	507,719	-	6,058	501,661
Total	<u>\$ 842,487</u>	<u>\$ -</u>	<u>\$ 11,320</u>	<u>\$ 831,167</u>

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2015	\$ 11,848	\$ 36,524
2016	12,384	35,988
2017	12,944	35,428
2018	13,530	34,842
2019	14,142	34,230
2020-2024	80,907	160,953
2025-2029	100,943	140,917
2030-2034	125,944	115,916
2035-2039	157,137	84,723
2040-2044	184,315	45,931
2045-2049	117,073	12,321
Total	<u>\$ 831,167</u>	<u>\$ 737,773</u>

TOWN OF MONTEREY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 4—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term indebtedness:

	<u>Total Due</u>	<u>Due Within One Year</u>
Business-type activities:		
General obligation bonds:		
U.S. Department of Agriculture - Rural Utilities Services - \$367,000 loan dated October 22, 2003, interest only payable annually for the first two years at 4.5%; thereafter payable in monthly payments of \$1,685 including interest at 4.5% and final payment due on August 1, 2044	\$ 329,506	\$ 5,505
U.S. Department of Agriculture - Rural Utilities Services - \$520,000 loan dated April 27, 2009, interest only payable annually for the first two years at 4.375%; thereafter payable in monthly payments of \$2,346 including interest at 4.375% and final payment due on April 27, 2049	<u>501,661</u>	<u>6,343</u>
Total business-type activities	<u>\$ 831,167</u>	<u>\$ 11,848</u>

NOTE 5—UNAVAILABLE REVENUE:

Unavailable revenue in the fund statements represents 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. Unavailable revenue totaling \$429 is comprised of the following:

Unavailable Property Tax Revenue

Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$429 at June 30, 2014.

NOTE 6—INTERFUND OBLIGATIONS:

Interfund obligations at June 30, 2014 consisted of the following:

	<u>Receivables</u>	<u>Payables</u>
General fund	\$ 56,595	\$ -
Proprietary fund	-	56,595
Total Interfund Obligations	<u>\$ 56,595</u>	<u>\$ 56,595</u>

The purpose of interfund balances is to cover cash deficits in a fund.

TOWN OF MONTEREY, VIRGINIA**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

NOTE 7—INTERFUND TRANSFERS:

Interfund transfers for the year ended June 30, 2014 consisted of the following:

	Transfers In	Transfers Out
General fund	\$ 4,220	\$ -
Proprietary fund	-	4,220
Total Transfers, Net	<u>\$ 4,220</u>	<u>\$ 4,220</u>

Transfers are used to (1) move revenues from the fund that statute of budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

NOTE 8—DUE FROM OTHER GOVERNMENTAL UNITS:

At June 30, 2014, amounts due from other governmental units consisted of the following:

Commonwealth of Virginia:	
Communications taxes	\$ 1,167
Rolling stock tax	14
Fire program funds	<u>1,000</u>
Total	<u>\$ 2,181</u>

NOTE 9—RELATED PARTY TRANSACTIONS:

During the fiscal year 2014, the Town rented office space from HiCoVa Enterprises, a company owned and operated by Janice Warner, the Mayor of the Town during that fiscal year. Payments to HiCoVa Enterprises for the year ended June 30, 2014 totaled \$5,100. The one year lease agreement between the Town and HiCoVa Enterprises dated May 1, 2000 has not been renewed. The Town has since moved locations.

NOTE 10—RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. The Town is not self-insured.

TOWN OF MONTEREY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

NOTE 10—RISK MANAGEMENT: (CONTINUED)

The Town has coverage with the Virginia Municipal Group Self Insurance Association (Association) for all insurable risks identified by the Town. Each Association member jointly and severally agrees to assume, pay, and discharge any liability. The Town pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

NOTE 11—LITIGATION:

At June 30, 2014, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to such entities.

NOTE 12—SUBSEQUENT EVENTS:

In preparing the financial statements, management of the Town of Monterey, Virginia has evaluated events and transactions for potential recognition or disclosure through May 15, 2015, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual
 General Fund
 Year Ended June 30, 2014

	Budget Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
General property taxes	\$ 31,250	\$ 32,910	\$ 1,660
Other local taxes	80,500	89,830	9,330
Revenue from the use of money and property	1,850	854	(996)
Intergovernmental revenues:			
Commonwealth	16,975	27,251	10,276
Total revenues	<u>\$ 130,575</u>	<u>\$ 150,845</u>	<u>\$ 20,270</u>
EXPENDITURES			
Current:			
General government administration	\$ 53,415	\$ 57,621	\$ (4,206)
Public safety	10,000	19,000	(9,000)
Public works	24,725	23,514	1,211
Parks, recreation, and cultural	1,500	1,300	200
Nondepartmental:			
Capital projects	31,300	34,270	(2,970)
Total expenditures	<u>\$ 120,940</u>	<u>\$ 135,705</u>	<u>\$ (14,765)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 9,635</u>	<u>\$ 15,140</u>	<u>\$ 5,505</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 4,220	\$ 4,220
Total other financing sources and uses	<u>\$ -</u>	<u>\$ 4,220</u>	<u>\$ 4,220</u>
Net change in fund balances	\$ 9,635	\$ 19,360	\$ 9,725
Fund balances - beginning	180,103	242,391	62,288
Fund balances - ending	<u><u>\$ 189,738</u></u>	<u><u>\$ 261,751</u></u>	<u><u>\$ 72,013</u></u>

SUPPORTING SCHEDULES

Schedule of Revenues-Budget and Actual
Governmental Funds
Year Ended June 30, 2014

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:				
Real property taxes	\$ 25,500	\$ 25,500	\$ 25,485	\$ (15)
Personal property taxes	5,500	5,500	6,831	1,331
Penalties and interest	250	250	594	344
Total general property taxes	<u>\$ 31,250</u>	<u>\$ 31,250</u>	<u>\$ 32,910</u>	<u>\$ 1,660</u>
Other local taxes:				
Local sales and use taxes	\$ 3,500	\$ 3,500	\$ 4,160	\$ 660
Consumers' utility taxes	6,000	6,000	6,715	715
Consumption tax	1,000	1,000	1,016	16
Bank stock taxes	70,000	70,000	77,005	7,005
Local lodging taxes	-	-	934	934
Total other local taxes	<u>\$ 80,500</u>	<u>\$ 80,500</u>	<u>\$ 89,830</u>	<u>\$ 9,330</u>
Revenue from use of money and property:				
Revenue from use of money	<u>\$ 1,850</u>	<u>\$ 1,850</u>	<u>\$ 854</u>	<u>\$ (996)</u>
Total revenue from use of money and property	<u>\$ 1,850</u>	<u>\$ 1,850</u>	<u>\$ 854</u>	<u>\$ (996)</u>
Total revenue from local sources	<u>\$ 113,600</u>	<u>\$ 113,600</u>	<u>\$ 123,594</u>	<u>\$ 9,994</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 75	\$ 75	\$ 14	\$ (61)
Communications tax	6,500	6,500	6,928	428
Personal property tax relief funds	2,400	2,400	2,309	(91)
Total noncategorical aid	<u>\$ 8,975</u>	<u>\$ 8,975</u>	<u>\$ 9,251</u>	<u>\$ 276</u>
Categorical aid:				
Other categorical aid:				
Department of fire programs funds	<u>\$ 8,000</u>	<u>\$ 8,000</u>	<u>\$ 18,000</u>	<u>\$ 10,000</u>
Total other categorical aid	<u>\$ 8,000</u>	<u>\$ 8,000</u>	<u>\$ 18,000</u>	<u>\$ 10,000</u>
Total categorical aid	<u>\$ 8,000</u>	<u>\$ 8,000</u>	<u>\$ 18,000</u>	<u>\$ 10,000</u>
Total revenue from the Commonwealth	<u>\$ 16,975</u>	<u>\$ 16,975</u>	<u>\$ 27,251</u>	<u>\$ 10,276</u>
Total General Fund	<u>\$ 130,575</u>	<u>\$ 130,575</u>	<u>\$ 150,845</u>	<u>\$ 20,270</u>
Total Primary Government	<u>\$ 130,575</u>	<u>\$ 130,575</u>	<u>\$ 150,845</u>	<u>\$ 20,270</u>

Schedule of Expenditures-Budget and Actual
 Governmental Funds
 Year Ended June 30, 2014

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town council:				
Personnel services	\$ 8,300	\$ 8,300	\$ 6,855	\$ 1,445
Liability Insurance	3,500	3,500	3,375	125
Other charges	860	860	764	96
Total town council	<u>\$ 12,660</u>	<u>\$ 12,660</u>	<u>\$ 10,994</u>	<u>\$ 1,666</u>
General and financial administration:				
Legal services	\$ 1,560	\$ 1,560	\$ 2,643	\$ (1,083)
Finance and administration	24,595	24,595	28,832	(4,237)
Audit and accounting services	9,500	9,500	10,052	(552)
Rent	5,100	5,100	5,100	-
Total general and financial administration	<u>\$ 40,755</u>	<u>\$ 40,755</u>	<u>\$ 46,627</u>	<u>\$ (5,872)</u>
Total general government administration	<u>\$ 53,415</u>	<u>\$ 53,415</u>	<u>\$ 57,621</u>	<u>\$ (4,206)</u>
Public safety:				
Fire and rescue services:				
Fire department	\$ 9,000	\$ 9,000	\$ 18,000	\$ (9,000)
Rescue squad	1,000	1,000	1,000	-
Total fire and rescue services	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 19,000</u>	<u>\$ (9,000)</u>
Total public safety	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 19,000</u>	<u>\$ (9,000)</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	<u>\$ 1,600</u>	<u>\$ 1,600</u>	<u>\$ 1,833</u>	<u>\$ (233)</u>
General buildings and grounds:				
Personnel services	\$ 7,650	\$ 7,650	\$ 7,478	\$ 172
Utilities	8,400	8,400	7,408	992
Telecommunications	1,800	1,800	1,974	(174)
General maintenance	5,275	5,275	4,821	454
Total general buildings and grounds	<u>\$ 23,125</u>	<u>\$ 23,125</u>	<u>\$ 21,681</u>	<u>\$ 1,444</u>
Total public works	<u>\$ 24,725</u>	<u>\$ 24,725</u>	<u>\$ 23,514</u>	<u>\$ 1,211</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Youth fund	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 300</u>	<u>\$ 200</u>
Library:				
County library	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>
Total parks, recreation, and cultural	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,300</u>	<u>\$ 200</u>
Nondepartmental:				
Capital projects:				
Capital outlay	<u>\$ 31,300</u>	<u>\$ 31,300</u>	<u>\$ 34,270</u>	<u>\$ (2,970)</u>
Total nondepartmental	<u>\$ 31,300</u>	<u>\$ 31,300</u>	<u>\$ 34,270</u>	<u>\$ (2,970)</u>
Total General Fund	<u><u>\$ 120,940</u></u>	<u><u>\$ 120,940</u></u>	<u><u>\$ 135,705</u></u>	<u><u>\$ (14,765)</u></u>

COMPLIANCE

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 MONTEREY, 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, the financial statements of the governmental activities, the business-type activities and each major fund of Town of Monterey, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Monterey, Virginia's basic financial statements, and have issued our report thereon dated May 15, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Fanner, Cox Associates

Staunton, Virginia
May 15, 2015