

TOWN OF PEMBROKE, VIRGINIA

FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2013

TOWN OF PEMBROKE, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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Introductory Section

TOWN OF PEMBROKE, VIRGINIA

TOWN COUNCIL

Donald Poteet, Mayor
Betty Spears
Bonnie Butler
Joyce Dirico
Derek Hairston
Gerald "Jerry" Eaton

OTHER OFFICIALS

Donnetta Williams Treasurer
James Hartley Town Attorney
Douglas Sadler Chief of Police

Financial Section

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of Town Council
Town of Pembroke, 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 the Town of Pembroke, 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, business-type activities, and each major fund of the Town of Pembroke, Virginia, as of June 30, 2013, and the respective changes in financial position, and,

Opinions (continued)

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 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pembroke, Virginia's basic financial statements. The introductory section, supporting schedules, and statistical information, 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 basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted by 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 information (continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014, on our consideration of the Town of Pembroke, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Pembroke, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Cox Associates

Blacksburg, Virginia
March 7, 2014

Basic Financial Statements

Town of Pembroke
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 154,394	\$ 145,175	\$ 299,569
Receivables (net of allowance for uncollectibles):			
Taxes receivable	39,081	-	39,081
Accounts receivable	7,067	37,610	44,677
Internal balances (See note 1.D.2)	(158,869)	158,869	-
Due from other governmental units	7,007	-	7,007
Capital assets (net of accumulated depreciation):			
Land	13,799	93,554	107,353
Infrastructure	-	2,843,570	2,843,570
Buildings and improvements	65,530	9,330	74,860
Improvements other than buildings	11,660	-	11,660
Machinery and equipment	3,150	100,746	103,896
Construction in progress	11,100	-	11,100
Total assets	<u>\$ 153,919</u>	<u>\$ 3,388,854</u>	<u>\$ 3,542,773</u>
LIABILITIES			
Accounts payable	\$ 4,220	\$ 6,667	\$ 10,887
Accrued liabilities	5,857	-	5,857
Customers' deposits	-	35,498	35,498
Long-term liabilities:			
Due within one year	-	93,627	93,627
Due in more than one year	15,574	1,910,249	1,925,823
Total liabilities	<u>\$ 25,651</u>	<u>\$ 2,046,041</u>	<u>\$ 2,071,692</u>
NET POSITION			
Net investment in capital assets	\$ 105,239	\$ 1,043,324	\$ 1,148,563
Unrestricted	23,029	299,489	322,518
Total net position	<u>\$ 128,268</u>	<u>\$ 1,342,813</u>	<u>\$ 1,471,081</u>

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

Town of Pembroke
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		Capital	Primary Government		
			Grants and Contributions	Grants and Contributions		Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 203,713	\$ -	\$ -	\$ -	-	\$ (203,713)	\$ -	\$ (203,713)
Public safety	148,951	29,163	44,595	-	-	(75,193)	-	(75,193)
Public works	12,340	-	-	-	-	(12,340)	-	(12,340)
Parks, recreation, and cultural	40,278	15,790	-	-	-	(24,488)	-	(24,488)
Total governmental activities	\$ 405,282	\$ 44,953	\$ 44,595	\$ -	-	\$ (315,734)	\$ -	\$ (315,734)
Business-type activities:								
Water and sewer fund	\$ 798,396	\$ 579,622	\$ -	\$ -	27,007	\$ -	\$ (191,767)	\$ (191,767)
Total business-type activities	\$ 798,396	\$ 579,622	\$ -	\$ -	27,007	\$ -	\$ (191,767)	\$ (191,767)
Total primary government	\$ 1,203,678	\$ 624,575	\$ 44,595	\$ 44,595	\$ 27,007	\$ (315,734)	\$ (191,767)	\$ (507,501)
General revenues:								
General property taxes						\$ 202,971	\$ -	\$ 202,971
Other local taxes:								
Local sales and use taxes						50,234	-	50,234
Consumers' utility taxes						4,131	-	4,131
Business license tax						17,005	-	17,005
Motor vehicle taxes						529	-	529
Bank stock tax						27,204	-	27,204
Lodging taxes						11,613	-	11,613
Gas taxes						25	-	25
Restaurant food taxes						38,052	-	38,052
Unrestricted revenues from the use of money and property						428	894	1,322
Miscellaneous						6,003	756	6,759
Contributions from Giles County						11,294	-	11,294
Grants and contributions not restricted to specific programs						32,457	-	32,457
Transfers						(130,699)	130,699	-
Total general revenues and transfers						\$ 271,247	\$ 132,349	\$ 403,596
Change in net position						\$ (44,487)	\$ (59,418)	\$ (103,905)
Net position - beginning						172,755	1,402,231	1,574,986
Net position - ending						\$ 128,268	\$ 1,342,813	\$ 1,471,081

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

Town of Pembroke
Balance Sheet
Governmental Funds
June 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 154,394
Receivables (net of allowance for uncollectibles):	
Taxes receivable	39,081
Accounts receivable	7,067
Due from other governmental units	7,007
Total assets	<u>\$ 207,549</u>
LIABILITIES	
Liabilities:	
Accounts payable	\$ 4,220
Accrued liabilities	5,857
Due to other funds	158,869
Total liabilities	<u>\$ 168,946</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	<u>\$ 37,791</u>
FUND BALANCE	
Unassigned	\$ 812
Total fund balances	<u>\$ 812</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 207,549</u>

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

Town of Pembroke
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
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	\$	812
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 13,799	
Buildings	65,530	
Improvements other than buildings	11,660	
Machinery and equipment	3,150	
Construction in progress	<u>11,100</u>	105,239

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		37,791
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Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences		(15,574)
Net position of governmental activities	<u>\$</u>	<u>128,268</u>

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

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

	<u>General</u>
REVENUES	
General property taxes	\$ 195,554
Other local taxes	148,793
Revenue from the use of money and property	428
Charges for services	44,953
Miscellaneous	6,003
Intergovernmental revenues:	
Local government	11,294
Commonwealth	69,427
Federal	7,625
Total revenues	<u>\$ 484,077</u>
 EXPENDITURES	
Current:	
General government administration	\$ 200,882
Public safety	150,917
Public works	8,556
Parks, recreation, and cultural	51,378
Total expenditures	<u>\$ 411,733</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>\$ 72,344</u>
 OTHER FINANCING SOURCES (USES)	
Transfers out	\$ (130,699)
Total other financing sources (uses)	<u>\$ (130,699)</u>
 Net change in fund balances	 \$ (58,355)
Fund balances - beginning	59,167
Fund balances - ending	<u><u>\$ 812</u></u>

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

Town of Pembroke
 Reconciliation of the 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 per Exhibit 5 - total governmental funds	\$ (58,355)
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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.

Capital outlays	\$ 14,600	
Depreciation expense	<u>(5,315)</u>	9,285

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	7,417
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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.

Decrease (increase) in compensated absences	(2,834)	
Change in net position of governmental activities	<u>\$ (44,487)</u>	

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

Town of Pembroke
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 145,175
Accounts receivable, net of allowances for uncollectibles	37,610
Due from other funds	158,869
Total current assets	<u>\$ 341,654</u>
Noncurrent assets:	
Capital assets:	
Land	\$ 93,554
Infrastructure	7,805,153
Buildings and improvements	20,733
Machinery and equipment	304,890
Less accumulated depreciation	(5,177,130)
Total capital assets	<u>\$ 3,047,200</u>
Total noncurrent assets	<u>\$ 3,047,200</u>
Total assets	<u>\$ 3,388,854</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 6,667
Customer deposits	35,498
Long-term debt - current portion	93,627
Total current liabilities	<u>\$ 135,792</u>
Noncurrent liabilities:	
Long-term debt - net of current portion	\$ 1,910,249
Total liabilities	<u>\$ 2,046,041</u>
NET POSITION	
Net investment in capital assets	\$ 1,043,324
Unrestricted	299,489
Total net position	<u>\$ 1,342,813</u>

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

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

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services:	
Water and sewer revenues	\$ 551,273
OPERATING EXPENSES	
Personnel services	\$ 130,699
Contractual services	21,428
Utilities	185,965
Materials and supplies	37,473
Repairs and maintenance	14,258
Capital outlay	16,967
Depreciation	316,186
Miscellaneous	13,522
Total operating expenses	<u>\$ 736,498</u>
Operating income (loss)	<u>\$ (185,225)</u>
NONOPERATING REVENUES (EXPENSES)	
Connection fees	\$ 28,349
Intergovernmental revenue	27,007
Interest expense	(61,898)
Interest revenue	894
Other income	756
Total nonoperating revenues (expenses)	<u>\$ (4,892)</u>
Income (loss) before transfers	<u>\$ (190,117)</u>
Transfers in	\$ 130,699
Change in net position	<u>\$ (59,418)</u>
Total net position - beginning	1,402,231
Total net position - ending	<u><u>\$ 1,342,813</u></u>

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

Town of Pembroke
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 544,603
Payments to suppliers	(301,754)
Payments to employees	(130,699)
Net cash provided by (used for) operating activities	<u>\$ 112,150</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental funds	\$ 27,007
Transfer from general fund	699
Other receipts	756
Net cash provided by (used for) noncapital financing activities	<u>\$ 28,462</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on bonds	\$ (105,853)
Connection fees	28,349
Interest payments	(61,898)
Net cash provided by (used for) capital and related financing activities	<u>\$ (139,402)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	<u>\$ 894</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,104
Cash and cash equivalents - beginning	143,071
Cash and cash equivalents - ending	<u><u>\$ 145,175</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (185,225)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	\$ 316,186
(Increase) decrease in accounts receivable	(178)
Increase (decrease) in customer deposits	(6,492)
Increase (decrease) in accounts payable	(12,141)
Total adjustments	<u>\$ 297,375</u>
Net cash provided by (used for) operating activities	<u><u>\$ 112,150</u></u>

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

TOWN OF PEMBROKE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Town conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant accounting policies established in GAAP and used by the Town are discussed below.

A. Financial Reporting Entity:

The Town of Pembroke, Virginia (Town) is a municipal corporation governed by an elected six-member Town Council. The accompanying financial statements present the Town. Related organizations, if any, are described below.

Blended Component Units - None

Discretely Presented Component Units - None

Related Organizations - None

Jointly Governed Organizations - None

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. 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.

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

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*.

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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 is the proprietary fund. 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, 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 unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities 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.

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 the government receives cash.

The government reports the following major governmental funds:

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

The Town operates the following proprietary fund:

The Town operates a sewage collection and treatment system and a water distribution system. The activity of the systems is accounted for in the water and sewer fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 1-Summary of Significant Accounting Policies: (continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (continued)

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

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 Town's water and sewer function and various other functions of the Town. 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.

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

D. Assets, liabilities, deferred inflows/outflows of resources and net position/fund balance:

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the government are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred inflows/outflows of resources and net position/fund balance: (continued)

2. Receivables and Payables (continued)

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on March 5th. Personal property taxes are due and collectible annually on March 5th. The Town bills and collects its own property taxes.

4. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$9,384 for taxes at June 30, 2013.

5. 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.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The 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 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 current or previous year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred inflows/outflows of resources and net position/fund balance: (continued)

6. Capital Assets (continued)

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Infrastructure	40
Machinery and equipment	5-10
Improvements other than buildings	15

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting 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 taken as "terminal leave" prior to retirement. The Town accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. 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 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.

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred inflows/outflows of resources and net position/fund balance: (continued)

9. 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 -items that cannot be spent because they are not in spendable form, such as prepaid items and inventory or are required to be maintained intact (corpus of a permanent fund).

Restricted -items that are restricted by external parties such as creditors or imposed by grants, law or legislation

Committed -items that have been committed by formal action by the entity's "highest level of decision-making authority"; which the Town of Pembroke, Virginia considers to be the Town Council; amounts cannot be used for any other purpose unless Town Council takes same highest level action to remove or change the constraint.

Assigned -items that have been allocated by committee action where the government's intent is to use the funds for a specific purpose. The Town of Pembroke, Virginia considers this level of authority to be the Town Council or any Committee granted such authority by the Town Council.

Unassigned -this category is for any balances that have no restrictions placed upon them. Positive amounts are only reported in the general fund.

The Town has not established a policy in relation to the requirements and classifications of GASB Statement No. 54 as of June 30, 2013.

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Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred inflows/outflows of resources and net position/fund balance: (continued)

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 does not have any deferred outflows of resources as of June 30, 2013.

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.

11. 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.

12. 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 (CONTINUED)
JUNE 30, 2013

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred inflows/outflows of resources and net position/fund balance: (continued)

13. Adoption of Accounting Policies

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, 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.

Items Previously Reported as Assets and Liabilities, Statement No. 65 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 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. 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.

14. Upcoming Pronouncements:

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 Statement No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statement 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.

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Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

1. Prior to May 1, the Town's finance committee 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. The General fund has a legally adopted budget.
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 function level. Only the Town Council can revise the appropriation for each department or category.
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).
7. Appropriations lapse on June 30, for all Town units. Several supplemental appropriations were necessary during this fiscal year.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not part of the Town's accounting system.
9. Fringe benefits and insurance, which are budgeted as non-departmental, have been redistributed for financial reporting purposes.

B. Deficit fund equity

At June 30, 2013, there were no funds with deficit fund equity.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

Note 3-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 2.2-400 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.

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). The Town had no investments as of June 30, 2013.

Note 4-Due from Other Governmental Units:

The following amounts represent receivables from other governments at June 30, 2013:

	<u>General Fund</u>
Commonwealth of Virginia	
State Sales Tax	\$ 5,595
Communications Tax	612
Categorical aid - Other	800
Total	<u>\$ 7,007</u>

Note 5-Long-term Obligations:**Primary Government - Governmental Activity Indebtedness:**

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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Compensated absences	<u>\$ 12,740</u>	<u>\$ 2,834</u>	<u>\$ -</u>	<u>\$ 15,574</u>
Total	<u><u>\$ 12,740</u></u>	<u><u>\$ 2,834</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,574</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 5-Long-term Obligations: (continued)Primary Government - Business-type Activity Indebtedness:

The following is a summary of long-term debt obligations of the Enterprise fund for the year ended June 30, 2013:

	Balance July 1, 2012	Issuances	Retirements	Balance June 30, 2013
Revenue bonds	\$ 190,471	\$ -	\$ (7,690)	\$ 182,781
Loans	1,919,258	-	(98,163)	1,821,095
Total	\$ 2,109,729	\$ -	\$ (105,853)	\$ 2,003,876

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

Year Ending June 30,	Revenue Bonds		Loan	
	Principal	Interest	Principal	Interest
2014	\$ 7,314	\$ -	\$ 86,313	\$ 63,640
2015	7,314	-	83,630	60,628
2016	7,314	-	86,902	57,553
2017	7,314	-	89,897	54,362
2018	7,314	-	93,201	51,058
2019-2023	36,571	-	446,832	205,145
2024-2028	36,571	-	507,260	121,607
2029-2033	36,571	-	427,060	31,435
2034-2038	36,498	-	-	-
Totals	\$ 182,781	\$ -	\$ 1,821,095	\$ 645,428

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 5-Long-term obligations: (continued)Primary Government - Business-type Activity Indebtedness: (continued)

Details of long-term indebtedness:

	<u>Interest Rate(s)</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Revenue Bonds:						
Virginia Dept of Health	0.00%	10/1/2009	2038	\$ 171,073	<u>\$ 182,781</u>	<u>\$ 7,314</u>
Loans:						
Sewer Press Loan	4.07%	3/18/2009	2020	\$ 142,047	<u>\$ 91,582</u>	<u>\$ 13,689</u>
BB&T Refunding Loan	3.52%	6/27/2012	2032	1,813,987	<u>1,729,513</u>	<u>72,624</u>
Total Loans					<u>\$ 1,821,095</u>	<u>\$ 86,313</u>
Totals					<u>\$ 2,003,876</u>	<u>\$ 93,627</u>

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Note 6-Employee Retirement System and Pension Plans:

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employee 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 at 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 at age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five 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.

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Note 6-Employee Retirement System and Pension Plans: (continued)

A. Plan Description (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by 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.

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS 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 Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 15.68% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

Note 6-Employee Retirement System and Pension Plans: (continued)**C. Annual Pension Cost**

For fiscal year 2013, the Town of Pembroke, Virginia's annual pension cost of \$32,006 was equal to the Town of Pembroke, Virginia's required and actual contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 32,006	100%	\$ -
June 30, 2012	27,103	100%	-
June 30, 2011	25,026	100%	-

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for 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 payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 65.22% funded. The actuarial accrued liability for benefits was \$923,380, and the actuarial value of assets was \$602,265, resulting in an unfunded actuarial accrued liability (UAAL) of \$321,115. The covered payroll (annual payroll of active employees covered by the plan) was \$186,658, and ratio of the UAAL to the covered payroll was 172.03%.

The schedule of funding progress, presented as required supplementary information (RSI) 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

Note 7-Capital Assets:

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

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 13,799	\$ -	\$ -	\$ 13,799
Construction in progress	-	11,100	-	11,100
Total capital assets not being depreciated	<u>\$ 13,799</u>	<u>\$ 11,100</u>	<u>\$ -</u>	<u>\$ 24,899</u>
Capital assets, being depreciated:				
Buildings	\$ 93,329	\$ -	\$ -	\$ 93,329
Improvements other than buildings	27,816	-	-	27,816
Machinery and equipment	198,202	3,500	-	201,702
Total capital assets being depreciated	<u>\$ 319,347</u>	<u>\$ 3,500</u>	<u>\$ -</u>	<u>\$ 322,847</u>
Accumulated depreciation for:				
Buildings	\$ (24,688)	\$ (3,111)	\$ -	\$ (27,799)
Improvements other than buildings	(14,302)	(1,854)	-	(16,156)
Machinery and equipment	(198,202)	(350)	-	(198,552)
Total accumulated depreciation	<u>\$ (237,192)</u>	<u>\$ (5,315)</u>	<u>\$ -</u>	<u>\$ (242,507)</u>
Total capital assets being depreciated, net	<u>\$ 82,155</u>	<u>\$ (1,815)</u>	<u>\$ -</u>	<u>\$ 80,340</u>
Governmental activities capital assets, net	<u>\$ 95,954</u>	<u>\$ 9,285</u>	<u>\$ -</u>	<u>\$ 105,239</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**Note 7-Capital Assets: (continued)**

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

Governmental activities:		
General government administration	\$	4,966
Public safety		349
		<u> </u>
Total depreciation expense-governmental activities	\$	<u>5,315</u>

Business-type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 93,554	\$ -	\$ -	\$ 93,554
Total capital assets not being depreciated	<u>\$ 93,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,554</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 20,733	\$ -	\$ -	\$ 20,733
Infrastructure	7,805,153	-	-	7,805,153
Machinery and equipment	304,890	-	-	304,890
Total capital assets being depreciated	<u>\$ 8,130,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,130,776</u>
Accumulated depreciation:				
Buildings and improvements	\$ (10,712)	\$ (691)	\$ -	\$ (11,403)
Infrastructure	(4,720,628)	(240,955)	-	(4,961,583)
Machinery and equipment	(129,604)	(74,540)	-	(204,144)
Total accumulated depreciation	<u>\$ (4,860,944)</u>	<u>\$ (316,186)</u>	<u>\$ -</u>	<u>\$ (5,177,130)</u>
Total capital assets being depreciated, net	<u>\$ 3,269,832</u>	<u>\$ (316,186)</u>	<u>\$ -</u>	<u>\$ 2,953,646</u>
Business-type activities capital assets, net	<u>\$ 3,363,386</u>	<u>\$ (316,186)</u>	<u>\$ -</u>	<u>\$ 3,047,200</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 8-Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates with other localities in a public entity risk pool for their coverage of general liability, property, crime, machinery and auto insurance with the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Town pays the Virginia Municipal Group contributions and assessments which are deposited into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9-Surety Bonds:

<i>Virginia Municipal Liability Pool</i>	
All Town employees - blanket bond	\$ 250,000
<i>St. Paul Fire and Marine Insurance Company</i>	
Trustees of Oakwood and Pinehurst Cemeteries (per trustee)	50,000
<i>C & N Surety</i>	
Fire Department - Treasurer and Assistant Treasurers	1,000
Police Chief	1,000

Note 10-Interfund Transfers:

Interfund transfers for the year ended June 30, 2013, consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ (130,699)
Water and Sewer Fund	130,699	-
Total	<u>\$ 130,699</u>	<u>\$ (130,699)</u>

Transfers are used to (1) move revenues from the fund that statute or 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 11-Deferred Inflows (Unavailable Revenue):

Unavailable revenue 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 \$37,791 is comprised of the following:

Property Taxes - Property tax revenue of \$37,791 representing uncollected tax billings not available for funding current expenditures.

Note 12-Commitments:

The Town entered into an agreement with Giles County Public Service Authority whereby the Authority could use the Town's distribution system for transportation of water to a point east of the Town for transmission of water to Hoges Chapel and beyond. Compensation for the use of the lines included amounts equal to debt service on three loans the Town assumed during construction of the system. The loans, originally with Farmers' Home Administration (now Rural Development) totaled \$544,600 and had annual debt service in the amount of \$33,007. Since the adoption of the original agreement in 1998, the PSA and the Town agreed to reduce the amount to \$22,007 or \$1,834 per month. Loan numbers 1, 2 and 3 (as numbered by Rural Development) with original loan amounts of \$275,000, \$91,800, and \$177,800 have maturity date of 2032. The loans were refinanced in 2012.

Required Supplementary Information

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 209,155	\$ 209,155	\$ 195,554	\$ (13,601)
Other local taxes	119,600	119,600	148,793	29,193
Permits, privilege fees, and regulatory licenses	16,200	16,200	-	(16,200)
Revenue from the use of money and property	156	156	428	272
Charges for services	33,550	33,550	44,953	11,403
Miscellaneous	3,101	3,101	6,003	2,902
Intergovernmental revenues:				
Local government	8,294	8,294	11,294	3,000
Commonwealth	50,600	50,600	69,427	18,827
Federal	-	-	7,625	7,625
Total revenues	\$ 440,656	\$ 440,656	\$ 484,077	\$ 43,421
EXPENDITURES				
Current:				
General government administration	\$ 262,039	\$ 262,039	\$ 200,882	\$ 61,157
Public safety	139,651	139,651	150,917	(11,266)
Public works	13,500	13,500	8,556	4,944
Parks, recreation, and cultural	25,466	25,466	51,378	(25,912)
Total expenditures	\$ 440,656	\$ 440,656	\$ 411,733	\$ 28,923
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 72,344	\$ 72,344
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (130,699)	\$ (130,699)
Total other financing sources and uses	\$ -	\$ -	\$ (130,699)	\$ (130,699)
Net change in fund balances	\$ -	\$ -	\$ (58,355)	\$ (58,355)
Fund balances - beginning	-	-	59,167	59,167
Fund balances - ending	\$ -	\$ -	\$ 812	\$ 812

Note 1: GAAP serves as the budgetary basis of accounting

Town of Pembroke, Virginia

Schedule of Pension Funding Progress
For the Year Ended June 30, 2013

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2012	\$ 602,265	\$ 923,380	\$ 321,115	65.22%	\$ 186,658	172.03%
June 30, 2011	632,529	924,791	292,262	68.40%	171,058	170.86%
June 30, 2010	638,807	775,311	136,504	82.39%	154,418	88.40%

Supporting Schedules

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

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property tax	\$ 143,946	\$ 143,946	\$ 157,464	\$ 13,518
Personal property tax	58,959	58,959	35,834	(23,125)
Mobile home tax	4,000	4,000	195	(3,805)
Penalties	2,250	2,250	2,061	(189)
Total general property taxes	<u>\$ 209,155</u>	<u>\$ 209,155</u>	<u>\$ 195,554</u>	<u>\$ (13,601)</u>
Other local taxes:				
Local sales and use tax	\$ 46,300	\$ 46,300	\$ 50,234	\$ 3,934
Consumers' utility tax	11,200	11,200	4,131	(7,069)
Business license tax	-	-	17,005	17,005
Motor vehicle licenses	-	-	529	529
Bank stock tax	25,000	25,000	27,204	2,204
Franchise tax	15,000	15,000	11,613	(3,387)
Gas tax	600	600	25	(575)
Restaurant food taxes	21,500	21,500	38,052	16,552
Total other local taxes	<u>\$ 119,600</u>	<u>\$ 119,600</u>	<u>\$ 148,793</u>	<u>\$ 29,193</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 16,200	\$ 16,200	\$ -	\$ (16,200)
Total permits, privilege fees, and regulatory licenses	<u>\$ 16,200</u>	<u>\$ 16,200</u>	<u>\$ -</u>	<u>\$ (16,200)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 6	\$ 6	\$ 28	\$ 22
Revenue from use of property	150	150	400	250
Total revenue from use of money and property	<u>\$ 156</u>	<u>\$ 156</u>	<u>\$ 428</u>	<u>\$ 272</u>
Charges for services:				
Charges for police services	\$ 25,000	\$ 25,000	\$ 29,163	\$ 4,163
Charges for recreational programs	8,550	8,550	15,790	7,240
Total charges for services	<u>\$ 33,550</u>	<u>\$ 33,550</u>	<u>\$ 44,953</u>	<u>\$ 11,403</u>
Miscellaneous revenue:				
Miscellaneous	\$ 3,101	\$ 3,101	\$ 6,003	\$ 2,902
Total revenue from local sources	<u>\$ 381,762</u>	<u>\$ 381,762</u>	<u>\$ 395,731</u>	<u>\$ 13,969</u>

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

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental Revenue:				
Contribution from Giles County, Virginia	\$ 8,294	\$ 8,294	\$ 11,294	\$ 3,000
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 1,100	\$ 1,100	\$ 1,232	\$ 132
Communications tax	-	-	8,029	8,029
Personal property tax relief act funds	-	-	23,196	23,196
Total noncategorical aid	\$ 1,100	\$ 1,100	\$ 32,457	\$ 31,357
Categorical aid:				
Law enforcement grant	\$ 41,500	\$ 41,500	\$ 27,692	\$ (13,808)
Local law enforcement grant	-	-	866	866
Fire funds grant	8,000	8,000	8,412	412
Total other categorical aid	\$ 49,500	\$ 49,500	\$ 36,970	\$ (12,530)
Total revenue from the Commonwealth	\$ 50,600	\$ 50,600	\$ 69,427	\$ 18,827
Revenue from the Federal Government:				
Categorical aid:				
Edward Byrne grant	\$ -	\$ -	\$ 7,625	\$ 7,625
Total General Fund	\$ 440,656	\$ 440,656	\$ 484,077	\$ 43,421

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

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town council	\$ 7,400	\$ 7,400	\$ 6,900	\$ 500
General and financial administration:				
Professional services	\$ 6,000	\$ 6,000	\$ 48,944	\$ (42,944)
Finance Department and General Administration	248,639	248,639	145,038	103,601
Total general and financial administration	<u>\$ 254,639</u>	<u>\$ 254,639</u>	<u>\$ 193,982</u>	<u>\$ 60,657</u>
Total general government administration	<u>\$ 262,039</u>	<u>\$ 262,039</u>	<u>\$ 200,882</u>	<u>\$ 61,157</u>
Public safety:				
Law enforcement and traffic control:				
Police department	<u>\$ 131,651</u>	<u>\$ 131,651</u>	<u>\$ 142,103</u>	<u>\$ (10,452)</u>
Fire and rescue services:				
Fire department	<u>\$ 8,000</u>	<u>\$ 8,000</u>	<u>\$ 8,814</u>	<u>\$ (814)</u>
Total public safety	<u>\$ 139,651</u>	<u>\$ 139,651</u>	<u>\$ 150,917</u>	<u>\$ (11,266)</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Street maintenance	<u>\$ 13,500</u>	<u>\$ 13,500</u>	<u>\$ 8,556</u>	<u>\$ 4,944</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Administration, maintenance, recreation centers and playgrounds	<u>\$ 25,466</u>	<u>\$ 25,466</u>	<u>\$ 51,378</u>	<u>\$ (25,912)</u>
Total General Fund	<u>\$ 440,656</u>	<u>\$ 440,656</u>	<u>\$ 411,733</u>	<u>\$ 28,923</u>

Other Statistical Information

Table 1

Town of Pembroke
Government-wide Expenses by Function
Last Ten Fiscal Years (1)

Fiscal Year	General		Parks, Recreation, and Cultural				Water and Sewer	Total		
	Administration	Public Safety	Public Works	Recreation, and Cultural	Sewer					
2012-2013	\$	203,713	\$	148,951	\$	12,340	\$	798,396	\$	1,203,678
2011-2012		272,932		117,354		17,513		34,756		1,301,646
2010-2011		251,383		145,158		14,461		35,865		1,245,302
2009-2010		269,785		153,210		13,600		33,649		1,270,903

(1) Information was not available for more than 4 years.

Table 2

Town of Pembroke
Government-wide Revenues
Last Ten Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2012-13	\$ 624,575	\$ 44,595	\$ 27,007	\$	202,971	148,793	1,322	6,759	43,751	\$ 1,099,773
2011-12	570,049	44,064	22,007		197,158	173,515	5,091	32,258	32,488	1,076,630
2010-11	567,489	50,343	22,007		190,114	163,769	474	21,642	32,722	1,048,560
2009-10	549,635	46,802	18,339		160,825	165,136	398	33,721	32,261	1,007,117

(1) Information was not available for more than 4 years.

Table 3

Town of Pembroke
Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General		Parks,		Debt		Capital		Totals
	Administration	Public Safety	Public Works	Recreation & Cultural	Service	Projects (1)	Projects (1)	Projects (1)	
2012-13	\$ 200,882	\$ 150,917	\$ 8,556	\$ 51,378	\$ -	\$ -	\$ -	\$ -	411,733
2011-12	266,645	144,906	15,594	34,756	-	-	-	-	461,901
2010-11	247,624	137,838	14,989	35,865	-	-	-	-	436,316
2009-10	264,829	145,785	13,615	33,649	5,610	-	-	-	463,488
2008-09	189,110	135,102	12,119	43,583	-	-	39,296	-	419,210
2007-08	206,771	118,803	11,300	33,827	-	-	63,080	-	433,781
2006-07	209,800	107,511	9,593	41,578	-	-	6,614	-	375,096
2005-06	209,141	109,217	13,133	30,269	-	-	93,706	-	455,466
2004-05	180,887	83,226	11,573	27,023	-	-	100,507	-	403,216
2003-04	147,926	95,822	11,402	24,438	-	-	89,291	-	368,879

(1) Capital projects are included with the related function beginning in fiscal year 2010.

Table 4

Town of Pembroke
Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits Privilege Fees and Regulatory Licenses	Revenue from use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter- governmental	Total
2012-13	\$ 195,554	\$ 148,793	\$ -	\$ 428	\$ 44,953	\$ 6,003	\$ -	\$ 88,346	\$ 484,077
2011-12	190,104	173,515	5,448	1,370	38,335	30,871	27,235	76,552	543,430
2010-11	179,647	163,769	-	462	41,737	20,206	-	83,065	488,886
2009-10	150,722	165,136	15	374	39,236	32,439	-	79,063	466,985
2008-09	151,308	73,083	43,271	8,148	30,375	9,842	-	120,870	436,897
2007-08	147,884	63,324	40,869	3,704	26,051	6,224	-	150,594	438,650
2006-07	140,047	66,282	49,542	3,714	24,448	2,343	-	124,450	410,826
2005-06	98,690	61,533	40,816	3,766	21,983	13,738	-	114,021	354,547
2004-05	100,816	63,443	36,167	3,081	18,857	13,600	-	98,152	334,116
2003-04	108,128	66,183	29,415	4,387	22,679	42,081	-	86,715	359,588

Table 5

Town of Pembroke
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (2)	Percent of Outstanding Delinquent Taxes to Tax Levy (2)
2012-13	\$ 217,910	\$ 177,919	81.65%	\$ 13,283	\$ 191,202	87.74%	\$ 37,791	17.34%
2011-12	220,560	171,877	77.93%	12,552	184,429	83.62%	30,374	13.77%
2010-11	202,152	185,971	92.00%	14,514	200,485	99.18%	23,320	11.54%
2009-10	205,231	167,930	81.82%	4,428	172,358	83.98%	19,473	9.49%
2008-09	176,849	176,849	100.00%	7,498	184,347	104.24%	-	-
2007-08	173,488	173,453	99.98%	6,444	179,897	103.69%	-	-
2006-07	173,577	172,990	99.66%	8,839	181,829	104.75%	-	-
2005-06	169,507	169,231	99.84%	6,716	175,947	103.80%	-	-
2004-05	128,073	128,061	99.99%	2,746	130,807	102.13%	-	-
2003-04	128,656	128,501	99.88%	3,604	132,105	102.68%	-	-

(1) Exclusive of penalties and interest.

(2) Information was not available for more than 4 years.

Table 6

Town of Pembroke
Assessed Value of Taxable Property (2)
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property	Mobile Homes	Public Service Companies	Total
2012-13	\$ 51,686,800	\$ 7,978,787	\$ 642,700	\$ 3,548,817	\$ 63,857,104
2011-12	52,390,900	8,163,955	704,900	3,553,001	64,812,756
2010-11	52,396,300	8,106,320	707,900	4,618,107	65,828,627
2009-10	48,735,358	10,703,851	679,100	3,565,172	63,683,481
2008-09	41,449,400	8,043,196	743,500	2,935,319	53,171,415
2007-08	40,897,900	7,828,414	652,000	3,074,949	52,453,263
2006-07	40,619,400	7,293,417	698,300	3,198,565	51,809,682
2005-06	27,938,200	6,645,384	1,030,300	2,744,176	38,358,060
2004-05	27,262,800	7,031,355	973,100	2,781,986	38,049,241
2003-04	26,715,500	1,717,009	958,200	2,770,871	32,161,580

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the Giles County Tax Assessor (includes real estate and personal property).

Table 7

Town of Pembroke
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Public Service Corporation Real Estate
2012-13	\$ 0.30	\$ 0.625	\$ 0.30	\$ 0.30
2011-12	0.30	0.625	0.30	0.30
2010-11	0.26	0.625	0.30	0.30
2009-10	0.26	0.625	0.30	0.30
2008-09	0.30	0.625	0.30	0.30
2007-08	0.30	0.625	0.30	0.30
2006-07	0.30	0.625	0.30	0.30
2005-06	0.30	0.625	0.30	0.30
2004-05	0.30	2.50	0.30	0.30
2003-04	0.30	2.50	0.30	0.30

(1) Per \$100 of assessed value.

Compliance Section

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 Town Council
Town of Pembroke, 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 the Town of Pembroke, 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 Pembroke, Virginia's basic financial statements and have issued our report thereon dated March 7, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be a material weakness, reference (2013-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pembroke, 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Pembroke, Virginia's Response to Findings

The Town of Pembroke, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Pembroke, 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.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
March 7, 2014

Town of Pembroke

Schedule of Findings and Responses
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?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2013-1

Criteria:	Per auditing standards, an auditee should have sufficient expertise in the selection and application of accounting principles used in the preparation of the annual financial report. In addition, the auditee should have sufficient internal controls over the preparation of financial statements in accordance with generally accepted accounting principles. Furthermore, reliance on the auditors to post such transactions is not a component of the auditee's internal controls.
Condition:	The Town's 2013 adjusted trial balance required significant adjustments that were made by the auditors.
Cause of Condition:	The Town has historically relied on the auditors for assistance in preparing the financial statements and related adjustments.
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.
Recommendation:	Management should continue to implement and follow review procedures in order to make adjustments in a timely manner.
Management's Response:	Management is dedicated to complying with the concepts set forth by auditing standards and will make efforts in the future to eliminate material errors from its adjusted trial balance.