



FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

TOWN OF CLIFTON FORGE, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

COUNCIL

Carl Brinkley, Mayor

Gayle Hillert, Vice-Mayor

Johnette Roberts

Robert Johnson

Jeff Irvine

OFFICIALS

Darlene L. Burcham	Town Manager
LeeAnna Tyler	Assistant Town Manager
David B. Davis	Town Attorney

TOWN OF CLIFTON FORGE, VIRGINIA

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YEAR ENDED JUNE 30, 2013

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of Town Council
Town of Clifton Forge, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Clifton Forge, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clifton Forge, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9, budgetary comparison information, and schedule of pension funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

The combining and individual fund financial statements and 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 combining and individual fund financial statements and supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2013, on our consideration of the Town of Clifton Forge, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Clifton Forge, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

November 29, 2013

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Town of Clifton Forge, Virginia Management's Discussion and Analysis

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

Financial Highlights

- The assets of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$7.7 million (*net position*). Of this amount, \$2.0 million (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$315,628, of which the governmental activities accounted for a \$20,459 increase while business-type activities accounted for a \$295,169 increase.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$442,711, an increase of \$172,785 in comparison with the prior year. 33% of this fund balance is *available for spending* at the Town's discretion (*unassigned fund balance*). The Town had \$295,152 in restricted fund balance at June 30, 2013.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$147,559, 5% of governmental fund expenditures less any capital outlay projects funded with bond proceeds.
- The Town's total debt increased by \$1,921,732 during the current fiscal year. The key factor in this net increase was the issuance of two bond anticipation notes.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

Government-wide financial statements: (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety, and public works. The business-type activities are for public utilities. The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements

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

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

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

The Town maintains one governmental fund. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on exhibits 3 and 5 of this financial report.

The Town maintains one type of **Proprietary Fund**. The Town uses *enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements, to account for its public utilities. The basic proprietary fund financial statements can be found on exhibits 7 through 9 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 40 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning budgetary comparisons for the general fund and the schedule of funding in progress relating to the Town's participation in its defined benefit pension plan. Required supplementary information can be found on pages 41 and 42 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows of resources by \$7.7 million at the close of the most recent fiscal year. A large portion of the Town's net position (\$5.6 million, 73% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure machinery and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the Town's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

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

Town of Clifton Forge, Virginia
Summary of Net Position
As of June 30, 2013

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,118,141	\$ 1,151,939	\$ 4,456,790	\$ 2,446,479	\$ 5,574,931	\$ 3,598,418
Capital assets	1,974,314	1,844,392	9,363,018	9,289,465	11,337,332	11,133,857
Total assets	\$ 3,092,455	\$ 2,996,331	\$ 13,819,808	\$ 11,735,944	\$ 16,912,263	\$ 14,732,275
Long-term liabilities outstanding	\$ 946,160	\$ 737,688	\$ 7,423,891	\$ 5,710,631	\$ 8,370,051	\$ 6,448,319
Other liabilities	55,121	133,567	203,578	128,143	258,699	261,710
Total liabilities	\$ 1,001,281	\$ 871,255	\$ 7,627,469	\$ 5,838,774	\$ 8,628,750	\$ 6,710,029
Deferred inflows of resources	\$ 606,017	\$ 660,378	\$ -	\$ -	\$ 606,017	\$ 660,378
Net position:						
Net investment in capital assets	\$ 1,551,829	\$ 1,370,985	\$ 4,077,304	\$ 3,616,926	\$ 5,629,133	\$ 4,987,911
Restricted	5,852	-	-	-	5,852	-
Unrestricted	(72,524)	93,713	2,115,035	2,280,244	2,042,511	2,373,957
Total net position	\$ 1,485,157	\$ 1,464,698	\$ 6,192,339	\$ 5,897,170	\$ 7,677,496	\$ 7,361,868

At the end of the current fiscal year, the Town is able to report positive balances in both categories of net position for the business-type activities. Governmental-activities reported a positive balance in net position investment in capital assets; however, a negative balance of \$72,524 was reported in unrestricted position.

As noted previously, the Town's net position increased by \$315,628 during the current fiscal year, generally due to increase in capital asset additions.

Government-wide Financial Analysis: (Continued)

Governmental activities increased the Town's net position by \$20,459. The following table summarizes the Town's Statement of Activities:

Town of Clifton Forge, Virginia Changes in Net Position As of June 30, 2013						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 68,930	\$ 80,330	\$ 2,534,153	\$ 2,633,604	\$ 2,603,083	\$ 2,713,934
Operating grants and contributions	910,554	757,442	-	-	910,554	757,442
Capital grants and contributions	-	-	15,188	19,223	15,188	19,223
General revenues:						
Property taxes	536,411	638,317	-	-	536,411	638,317
Other taxes	772,556	783,193	-	-	772,556	783,193
Unrestricted revenues from use of money and property	10,783	9,010	62	-	10,845	9,010
Miscellaneous	77,034	23,289	-	-	77,034	23,289
Grants and contributions not restricted to specific programs	420,338	422,021	-	-	420,338	422,021
Total revenues	\$ 2,796,606	\$ 2,713,602	\$ 2,549,403	\$ 2,652,827	\$ 5,346,009	\$ 5,366,429
Expenses:						
General government administration	\$ 520,236	\$ 522,765	\$ -	\$ -	\$ 520,236	\$ 522,765
Public safety	1,048,094	982,527	-	-	1,048,094	982,527
Public works	807,040	737,596	-	-	807,040	737,596
Health and welfare	7,117	6,447	-	-	7,117	6,447
Parks, recreation and cultural	275,235	277,107	-	-	275,235	277,107
Community development	127,727	89,307	-	-	127,727	89,307
Interest on long-term debt	18,702	16,528	-	-	18,702	16,528
Water fund	-	-	1,004,570	1,111,478	1,004,570	1,111,478
Sewer fund	-	-	1,221,660	1,428,145	1,221,660	1,428,145
Total expenses	\$ 2,804,151	\$ 2,632,277	\$ 2,226,230	\$ 2,539,623	\$ 5,030,381	\$ 5,171,900
Increase (decrease) in net position before transfers	\$ (7,545)	\$ 81,325	\$ 323,173	\$ 113,204	\$ 315,628	\$ 194,529
Transfers	\$ 28,004	\$ -	\$ (28,004)	\$ -	\$ -	\$ -
Increase in net position	\$ 20,459	\$ 81,325	\$ 295,169	\$ 113,204	\$ 315,628	\$ 194,529
Net position - beginning of year	\$ 1,464,698	\$ 1,383,373	\$ 5,897,170	\$ 5,783,966	\$ 7,361,868	\$ 7,167,339
Net position - end of year	\$ 1,485,157	\$ 1,464,698	\$ 6,192,339	\$ 5,897,170	\$ 7,677,496	\$ 7,361,868

Changes in net position are comprised of the differences between revenues, expenses, and similar items. The key elements of this decrease were attributed to decreases in property tax revenue and increases in expenses.

Business-type activities increased the Town's net position by \$295,169. Similar to how changes arise in the governmental activities, business-type activities also experience budgetary differences; however, as a public utility function comprises the Town's business-type activities there is more of a direct correlation to the revenues generated relative to the expenses incurred because of service demands.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$442,711, an increase of \$172,785 in comparison with the prior year. Of this amount \$147,559 is reported as unassigned, which is available for spending at the Town's discretion. At June 30, 2013, The Town had \$295,152 in restricted fund balance.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Total net position of the proprietary funds was \$6.2 million, of which \$2.1 million was unrestricted and available for use at the Town's discretion. The total increase in net position was \$295,169.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$11.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and machinery and equipment as well as construction in progress.

Capital assets, net of accumulated depreciation, are illustrated in the following table:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 759,994	\$ 759,994	\$ 77,412	\$ 77,412	\$ 837,406	\$ 837,406
Buildings	342,875	235,874	-	-	342,875	235,874
Infrastructure	152,555	158,643	9,115,051	9,153,869	9,267,606	9,312,512
Machinery & Equipment	701,425	628,166	-	-	701,425	628,166
Construction in progress	17,465	61,715	170,555	58,184	188,020	119,899
Total	\$ 1,974,314	\$ 1,844,392	\$ 9,363,018	\$ 9,289,465	\$ 11,337,332	\$ 11,133,857

Additional information on the Town's capital assets can be found in note 5 on pages 30 through 32 of this report.

Long-term debt: At the end of the current fiscal year, the Town had total outstanding debt of \$8.4 million and details are summarized in the following table:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds and Notes Payable:						
Capital leases	\$ 301,291	\$ 323,407	\$ -	\$ -	\$ 301,291	\$ 323,407
Note Payable	410,494	150,000	2,097,700	-	2,508,194	150,000
Revenue bonds	-	-	2,572,125	2,842,875	2,572,125	2,842,875
Revolving loan funds	-	-	2,713,651	2,829,664	2,713,651	2,829,664
Landfill closure and post-closure	135,000	142,500	-	-	135,000	142,500
Compensated absences	99,375	121,781	40,415	38,092	139,790	159,873
Total	\$ 946,160	\$ 737,688	\$ 7,423,891	\$ 5,710,631	\$ 8,370,051	\$ 6,448,319

Capital Asset and Debt Administration: (Continued)

Debt associated with governmental activities increased by \$208,472 and debt associated with business-type activities increased by \$1,713,260. The key factor in the governmental increase was additional capital leases and bond anticipation note issuances and the business activities increase was due to the issuance of two bond anticipation notes.

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

Additional information on the Town's long-term debt and compliance can be found in Note 6.

Economic Factors and Next Year's Budgets and Rates

In 2001, Clifton Forge became only the second city in Virginia's modern history to revert from city to town status; however, the financial stress faced by the Town did not disappear with the reversion.

The budget included a mandatory pay increase to offset the 5% cost paid by the employee to participate in VRS pension. The Town approved an additional 1.7% across the board pay increase to offset the impact of income taxes resulting from the transfer of the 5% retirement cost to the employees. The budget continues to include a capital improvement program while keeping the overall budget increase to a minimum.

Although the town still lacks an adequate reserve fund, the Town continues to make strides to increase fund balances. Moreover, meals and sales tax revenue continue to increase over previous years. The Town's real estate tax remains at \$.21. The Town began consumption based billing for water and sewer in July 2011 with a base rate for 5,000 gallons set at \$96.00. The base water rate decrease from \$26.50 to \$24.50 and the base sewer rate increased from \$69.50 to \$71.50. The wastewater fund is currently repaying Virginia Resource Authority loans. The loans relate to capital improvements at the wastewater plant in conjunction with a consent order by the Virginia Department of Environmental Quality.

Despite the downward trend of the 1990's, the town is slowly rebounding into an attractive community in which to live and work. A large portion of the Town's residential property has been declared a Historic District. In conjunction with architect students from Virginia Tech, the Town has constructed a new amphitheater in the downtown area. Through grants from the Alleghany Foundation, the Town has continued to demolish dilapidated houses to improve the appearance of the Town. Town Council and citizens are taking an active interest in the revitalization of the Historic Masonic Theater. The Town is actively marketing town owned property to residential and business owners. Several new businesses have opened. The town continues to show promise towards attracting small business and new homeowners to the area.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, Town of Clifton Forge, 547 Main Street, Clifton Forge, VA 24422.

Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 108,723	\$ 2,000,290	\$ 2,109,013
Receivables (net of allowance for uncollectibles):			
Taxes receivable	622,576	-	622,576
Accounts receivable	51,584	248,881	300,465
Due from other governmental units	40,106	50,141	90,247
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	295,152	2,157,478	2,452,630
Capital assets (net of accumulated depreciation):			
Land	759,994	77,412	837,406
Buildings and improvements	342,875	-	342,875
Machinery and equipment	701,425	-	701,425
Infrastructure	152,555	9,115,051	9,267,606
Construction in progress	17,465	170,555	188,020
Total assets	\$ 3,092,455	\$ 13,819,808	\$ 16,912,263
LIABILITIES			
Accounts payable	\$ 36,200	\$ 130,985	\$ 167,185
Retainage Payable	-	3,335	3,335
Deposits for UT	-	59,716	59,716
Accrued payroll	4,855	2,857	7,712
Accrued interest payable	-	6,685	6,685
Due to other funds	14,066	-	14,066
Long-term liabilities:			
Due within one year	373,515	1,303,179	1,676,694
Due in more than one year	572,645	6,120,712	6,693,357
Total liabilities	\$ 1,001,281	\$ 7,627,469	\$ 8,628,750
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	\$ 606,017	\$ -	\$ 606,017
NET POSITION			
Net investment in capital assets	\$ 1,551,829	\$ 4,137,020	\$ 5,688,849
Restricted for:			
Forfeited assets - law enforcement	5,852	-	5,852
Unrestricted (deficit)	(72,524)	2,055,319	1,982,795
Total net position	\$ 1,485,157	\$ 6,192,339	\$ 7,677,496

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

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 520,236	\$ -	\$ -	\$ -	(520,236)	\$ -	(520,236)
Public safety	1,048,094	62,852	191,670	-	(793,572)	-	(793,572)
Public works	807,040	675	645,553	-	(160,812)	-	(160,812)
Health and welfare	7,117	-	-	-	(7,117)	-	(7,117)
Parks, recreation, and cultural	275,235	5,403	46,331	-	(223,501)	-	(223,501)
Community development	127,727	-	27,000	-	(100,727)	-	(100,727)
Interest on long-term debt	18,702	-	-	-	(18,702)	-	(18,702)
Total governmental activities	\$ 2,804,151	\$ 68,930	\$ 910,554	\$ -	(1,824,667)	\$ -	(1,824,667)
Business-type activities:							
Water	\$ 1,004,570	\$ 1,003,666	\$ -	\$ 15,188	\$ -	\$ 14,284	\$ 14,284
Sewer	1,221,660	1,530,487	-	-	-	308,827	308,827
Total business-type activities	\$ 2,226,230	\$ 2,534,153	\$ -	\$ 15,188	\$ -	\$ 323,111	\$ 323,111
Total primary government	\$ 5,030,381	\$ 2,603,083	\$ 910,554	\$ 15,188	(1,824,667)	\$ 323,111	(1,501,556)
General revenues:							
General property taxes					\$ 536,411	\$ -	\$ 536,411
Other local taxes:							
Local sales and use tax					113,778	-	113,778
Consumers' utility tax					163,778	-	163,778
Business licenses tax					179,847	-	179,847
Restaurant food tax					184,978	-	184,978
Motor vehicle licenses					53,129	-	53,129
Bank stock taxes					61,582	-	61,582
Tobacco tax					15,464	-	15,464
Unrestricted revenues from use of money and property					10,783	62	10,845
Miscellaneous					77,034	-	77,034
Grants and contributions not restricted to specific programs					420,338	-	420,338
Transfers					28,004	(28,004)	-
Total general revenues and transfers					\$ 1,845,126	\$ (27,942)	\$ 1,817,184
Change in net position					\$ 20,459	\$ 295,169	\$ 315,628
Net position - beginning					1,464,698	5,897,170	7,361,868
Net position - ending					\$ 1,485,157	\$ 6,192,339	\$ 7,677,496

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

Fund Financial Statements

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Balance Sheet
 Governmental Funds
 June 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 108,723
Receivables (net of allowance for uncollectibles):	
Taxes receivable	622,576
Accounts receivable	51,584
Due from other governmental units	40,106
Restricted assets:	
Temporarily restricted:	
Cash and cash equivalents	<u>295,152</u>
Total assets	<u>\$ 1,118,141</u>
LIABILITIES	
Accounts payable	\$ 36,200
Accrued payroll	4,855
Due to other funds	<u>14,066</u>
Total liabilities	<u>\$ 55,121</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue-property taxes	<u>\$ 620,309</u>
FUND BALANCE	
Restricted for:	
Forfeited assets - law enforcement	\$ 5,852
Capital-unspent bond anticipation note proceeds	289,300
Unassigned, reported in:	
General fund	<u>147,559</u>
Total fund balances	<u>\$ 442,711</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 1,118,141</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, 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	\$ 442,711
------------------------------------------------------------------------	------------

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

Capital assets	\$ 4,247,337	
Less: accumulated depreciation	<u>(2,273,023)</u>	1,974,314

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

Unavailable revenue related to property taxes	14,292
-----------------------------------------------	--------

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

Compensated absences	\$ (99,375)	
Capital leases	(301,291)	
Notes payable	(410,494)	
Landfill postclosure liability	<u>(135,000)</u>	<u>(946,160)</u>

Net position of governmental activities	\$ <u>1,485,157</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
 For the Year Ended June 30, 2013

	<u>General</u>
REVENUES	
General property taxes	\$ 610,187
Other local taxes	772,556
Permits, privilege fees, and regulatory licenses	4,780
Fines and forfeitures	8,072
Revenue from the use of money and property	10,783
Charges for services	56,078
Miscellaneous	77,034
Recovered costs	75,945
Intergovernmental revenues:	
Commonwealth	1,249,349
Federal	81,543
Total revenues	<u>\$ 2,946,327</u>
EXPENDITURES	
Current:	
General government administration	\$ 269,640
Public safety	1,001,607
Public works	812,979
Health and welfare	7,117
Parks, recreation, and cultural	286,893
Community development	134,365
Nondepartmental	233,582
Capital outlay	275,038
Debt service:	
Principal retirement	81,528
Interest and other fiscal charges	18,702
Total expenditures	<u>\$ 3,121,451</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(175,124)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	\$ 28,004
Issuance of bond anticipation note payable	289,300
Issuance of capital leases	30,605
Total other financing sources (uses)	<u>\$ 347,909</u>
Net change in fund balances	<u>\$ 172,785</u>
Fund balances - beginning	<u>\$ 269,926</u>
Fund balances - ending	<u><u>\$ 442,711</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
For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$	172,785
--------------------------------------------------------	----	---------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset additions	\$	296,568	
Less: depreciation expense		<u>(166,646)</u>	129,922

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(73,776)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments	\$	81,527	
Issuance of capital leases		(30,605)	
Issuance of bond anticipation note payable		(289,300)	
Decrease in landfill postclosure liability		<u>7,500</u>	(230,878)

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

(Increase)/decrease in compensated absences	<u>22,406</u>
---------------------------------------------	---------------

Change in net position of governmental activities	\$	<u><u>20,459</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 June 30, 2013

	Enterprise Fund	Enterprise Fund	
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,133,196	\$ 867,094	\$ 2,000,290
Accounts receivables, net of allowance for uncollectibles	89,089	159,792	248,881
Due from other governmental units	50,141	-	50,141
Total current assets	\$ 1,272,426	\$ 1,026,886	\$ 2,299,312
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	\$ 667,566	\$ 1,489,912	\$ 2,157,478
Noncurrent assets:			
Capital assets (net of accumulated depreciation):			
Land	\$ 27,362	\$ 50,050	\$ 77,412
Construction in progress	151,706	18,849	170,555
Infrastructure	4,051,448	5,063,603	9,115,051
Total capital assets	\$ 4,230,516	\$ 5,132,502	\$ 9,363,018
Total noncurrent assets	\$ 4,898,082	\$ 6,622,414	\$ 11,520,496
Total assets	\$ 6,170,508	\$ 7,649,300	\$ 13,819,808
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 44,441	\$ 86,544	\$ 130,985
Retainage Payable	3,335	-	3,335
Deposits for UT	59,716	-	59,716
Accrued payroll	1,454	1,403	2,857
Accrued interest payable	5,909	776	6,685
Bonds payable - current portion	117,687	270,750	388,437
Notes payable - current portion	607,850	302,850	910,700
Compensated absences - current portion	3,442	600	4,042
Total current liabilities	\$ 843,834	\$ 662,923	\$ 1,506,757
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 2,595,964	\$ 2,301,375	\$ 4,897,339
Notes payable - net of current portion	-	1,187,000	1,187,000
Compensated absences- net of current portion	30,978	5,395	36,373
Total noncurrent liabilities	\$ 2,626,942	\$ 3,493,770	\$ 6,120,712
Total liabilities	\$ 3,470,776	\$ 4,156,693	\$ 7,627,469
NET POSITION			
Net investment in capital assets	\$ 1,576,581	\$ 2,560,439	\$ 4,137,020
Unrestricted	1,123,151	932,168	2,055,319
Total net position	\$ 2,699,732	\$ 3,492,607	\$ 6,192,339

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

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

	Enterprise Fund	Enterprise Fund	
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 1,002,423	\$ -	\$ 1,002,423
Sewer revenues	-	1,529,280	1,529,280
Other revenues	1,243	1,193	2,436
Miscellaneous	-	14	14
Total operating revenues	\$ 1,003,666	\$ 1,530,487	\$ 2,534,153
OPERATING EXPENSES			
Transmissional distribution	\$ 142,159	\$ -	\$ 142,159
Water filtration plant	443,576	-	443,576
Wastewater treatment plant	-	573,383	573,383
Sewage collection	-	80,863	80,863
Sewer inflow and infiltration	-	67,796	67,796
Depreciation	226,541	370,966	597,507
Capital outlay	45,575	27,560	73,135
Total operating expenses	\$ 857,851	\$ 1,120,568	\$ 1,978,419
Operating income (loss)	\$ 145,815	\$ 409,919	\$ 555,734
NONOPERATING REVENUES (EXPENSES)			
Contingencies	\$ (109,731)	\$ (96,816)	\$ (206,547)
Interest revenue	-	62	62
Interest expense	(36,988)	(4,276)	(41,264)
Total nonoperating revenues (expenses)	\$ (146,719)	\$ (101,030)	\$ (247,749)
Income before contributions and transfers	\$ (904)	\$ 308,889	\$ 307,985
Capital contributions- intergovernmental	\$ 15,188	\$ -	\$ 15,188
Transfers in (out)	(14,002)	(14,002)	(28,004)
Change in net position	\$ 282	\$ 294,887	\$ 295,169
Total net position - beginning	\$ 2,699,450	\$ 3,197,720	\$ 5,897,170
Total net position - ending	\$ 2,699,732	\$ 3,492,607	\$ 6,192,339

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

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

	Enterprise Fund	Enterprise Fund	
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 990,594	\$ 1,518,009	\$ 2,508,603
Payments to suppliers	(163,279)	(630,719)	(793,998)
Payments to employees	(417,476)	(92,763)	(510,239)
Net cash provided by (used for) operating activities	\$ 409,839	\$ 794,527	\$ 1,204,366
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (14,002)	\$ (14,002)	\$ (28,004)
Net cash provided by (used for) noncapital financing activities	\$ (14,002)	\$ (14,002)	\$ (28,004)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (435,871)	\$ (235,189)	\$ (671,060)
Intergovernmental capital receipts	15,188	-	15,188
Contingencies	(109,731)	(96,816)	(206,547)
Principal payments on bonds	(116,013)	(270,750)	(386,763)
Proceeds from indebtedness	607,850	1,489,850	2,097,700
Interest payments	(36,682)	(3,499)	(40,181)
Net cash provided by (used for) capital and related financing activities	\$ (75,259)	\$ 883,596	\$ 808,337
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	\$ -	\$ 62	\$ 62
Net increase (decrease) in cash and cash equivalents	\$ 320,578	\$ 1,664,183	\$ 1,984,761
Cash and cash equivalents - beginning	1,480,184	692,823	2,173,007
Cash and cash equivalents - ending	\$ 1,800,762	\$ 2,357,006	\$ 4,157,768
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 145,815	\$ 409,919	\$ 555,734
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 226,541	\$ 370,966	\$ 597,507
(Increase) decrease in accounts receivable	37,069	(12,478)	24,591
(Increase) decrease in intergovernmental receivables	(50,141)	-	(50,141)
Increase (decrease) in accounts payable	10,788	23,775	34,563
Increase (decrease) in retainage payable	2,303	-	2,303
Increase (decrease) in deposits for UT	36,916	-	36,916
Increase (decrease) in accrued payroll	(126)	696	570
Increase (decrease) accrued compensated absences	674	1,649	2,323
Total adjustments	\$ 264,024	\$ 384,608	\$ 648,632
Net cash provided by (used for) operating activities	\$ 409,839	\$ 794,527	\$ 1,204,366

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

Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2013

	<u>Private-Purpose Trusts</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 271,344	\$ 31,707
Due from other funds	<u>14,066</u>	<u>-</u>
Total assets	<u>\$ 285,410</u>	<u>\$ 31,707</u>
LIABILITIES		
Amounts held for others	\$ -	\$ 31,707
Total liabilities	<u>\$ -</u>	<u>\$ 31,707</u>
NET POSITION		
Held in trust for cemeteries	<u>\$ 285,410</u>	

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

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2013

	<u>Private-Purpose Trust</u>
ADDITIONS	
Contributions:	
Sale of cemetery lots	\$ <u>7,050</u>
Total additions	\$ <u>7,050</u>
DEDUCTIONS	
Total deductions	\$ <u>-</u>
Change in net position	\$ <u>7,050</u>
Net position - beginning	\$ <u>278,360</u>
Net position - ending	\$ <u><u>285,410</u></u>

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

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TOWN OF CLIFTON FORGE, VIRGINIA

Notes to Financial Statements As of 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 following is a summary of the more significant policies:

A. The Financial Reporting Entity

The Town of Clifton Forge, Virginia (government) is a municipal corporation governed by an elected five-member Town Council. The accompanying financial statements present the government. Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. The Town does not have any discretely presented component units.

The Town has no component units for the fiscal year ended June 30, 2013.

Jointly Governed Organizations - The Town has no jointly governed organizations for the fiscal year ended June 30, 2013.

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.

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.

Statement of Activities - 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.

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

B. Government-wide and Fund Financial Statements: (continued)

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

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.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*, as are the proprietary fund 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.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. 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.

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

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

The Town's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

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

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 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 cash is received by the government.

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 in another fund.

The government reports the following major proprietary funds:

Enterprise Funds

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

The *Water Fund* accounts for the activities of the Town's water system. The fund reports the operations of the Town's water distribution system.

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

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

Enterprise Funds: (continued)

The *Sewer Fund* accounts for the activities of the Town's sewer system. The fund reports the operations of the Town's sewage treatment plant, sewage pumping station and collection system.

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

Additionally, the government reports the following fund types:

Fiduciary funds (Trust and Agency funds) account for assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. Agency funds include the Joint Development Investment Fund. Trust Funds, which consist of the Mountain View Cemetery and Crown Hill Cemetery Funds.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The government'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."

3. Restricted Assets

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

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

D. Assets, Liabilities, and Net Position or Equity: (continued)

4. 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 in two installments on June 5th and December 5th. Personal property taxes are due and collectible annually on December 5th. The Town bills and collects its own property taxes.

5. 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 \$55,565 at June 30, 2013 for property taxes, and water and sewer allowances were \$50,581 and \$132,520, respectively.

6. 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.

7. 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 Town 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.

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

<u>Assets</u>	<u>Years</u>
Building and improvements	40
Structures, lines, and accessories	33
Machinery and equipment	3-10
Infrastructure	30

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

D. Assets, Liabilities, and Net Position or Equity: (continued)

8. 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. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No expenditure is reported for these amounts in the fund financial statements. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Town accrues salary-related payments associated with the payment of compensated absences.

9. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, 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.

10. 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;

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

D. Assets, Liabilities, and Net Position or Equity: (continued)

10. Fund Equity: (continued)

- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

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

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2013, the Town had no deferred outflows.

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 2nd half installments levied during the fiscal year but due after June 30th and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th are reported as deferred inflows of resources. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

TOWN OF CLIFTON FORGE, VIRGINIA

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

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

D. Assets, Liabilities, and Net Position or Equity: (continued)

12. 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.

13. 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.

14. 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.

15. 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 implementation of this statement resulted in no restatement of net position.

TOWN OF CLIFTON FORGE, VIRGINIA

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

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 Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. All funds have legally adopted budgets.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriation for each fund can be revised only by the Town Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General 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.

B. Deficit Fund Equity

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

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 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

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).

Credit Risk of Debt Securities

The Town has no formal investment policy.

The Town’s rated debt investments as of June 30, 2013 were rated by Standard & Poor’s and the ratings are presented below using Standard & Poor’s rating scale.

<u>Town's Rated Debt Investments' Values</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAA</u>
Money Market Mutual Fund	\$ <u>223,327</u>
Total	\$ <u><u>223,327</u></u>

NOTE 4—DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units at June 30, 2013, are as follows:

Governmental Activities:

Commonwealth of Virginia:

Rolling stock tax	\$ 6,569
Motor vehicle commission tax	16
Communications tax	<u>15,204</u>
Total due from the Commonwealth	\$ <u>21,789</u>

Federal:

ISTEA Grant	\$ 3,417
FEMA-derecho	<u>14,900</u>
Total due from Federal Government	\$ <u>18,317</u>
Grand Total	\$ <u><u>40,106</u></u>

Business-type Activities:

Alleghany County:

Bulk water sales	\$ <u><u>50,141</u></u>
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TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 5—CAPITAL ASSETS:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2013.

Governmental Activities:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 759,994	\$ -	\$ -	\$ 759,994
Construction in progress	61,715	85,323	129,573	17,465
Total capital assets not being depreciated	<u>\$ 821,709</u>	<u>\$ 85,323</u>	<u>\$ 129,573</u>	<u>\$ 777,459</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,178,555	\$ 129,573	\$ -	\$ 1,308,128
Infrastructure (1)	182,646	-	-	182,646
Machinery and equipment	1,767,859	211,245	-	1,979,104
Total capital assets being depreciated	<u>\$ 3,129,060</u>	<u>\$ 340,818</u>	<u>\$ -</u>	<u>\$ 3,469,878</u>
Less: accumulated depreciation for:				
Buildings and improvements	\$ (942,681)	\$ (22,572)	\$ -	\$ (965,253)
Infrastructure	(24,003)	(6,088)	-	(30,091)
Machinery and equipment	(1,139,693)	(137,986)	-	(1,277,679)
Total accumulated depreciation	<u>\$ (2,106,377)</u>	<u>\$ (166,646)</u>	<u>\$ -</u>	<u>\$ (2,273,023)</u>
Total capital assets being depreciated, net	<u>\$ 1,022,683</u>	<u>\$ 174,172</u>	<u>\$ -</u>	<u>\$ 1,196,855</u>
Net capital assets	<u>\$ 1,844,392</u>	<u>\$ 259,495</u>	<u>\$ 129,573</u>	<u>\$ 1,974,314</u>

(1) The Town has elected not to record infrastructure assets acquired prior to July 1, 2003.

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 5—CAPITAL ASSETS: (CONTINUED)

Business-Type Activities:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Water Fund				
Capital assets not being depreciated:				
Land	\$ 27,362	\$ -	\$ -	\$ 27,362
Construction in progress	40,706	411,184	300,184	151,706
Total capital assets not being depreciated	<u>\$ 68,068</u>	<u>\$ 411,184</u>	<u>\$ 300,184</u>	<u>\$ 179,068</u>
Capital assets being depreciated:				
Infrastructure	\$ 6,037,902	\$ 324,871	\$ -	\$ 6,362,773
Less: accumulated depreciation	<u>(2,084,784)</u>	<u>(226,541)</u>	<u>-</u>	<u>(2,311,325)</u>
Total capital assets being depreciated, net	<u>\$ 3,953,118</u>	<u>\$ 98,330</u>	<u>\$ -</u>	<u>\$ 4,051,448</u>
Net capital assets	<u><u>\$ 4,021,186</u></u>	<u><u>\$ 509,514</u></u>	<u><u>\$ 300,184</u></u>	<u><u>\$ 4,230,516</u></u>
Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 50,050	\$ -	\$ -	\$ 50,050
Construction in progress	17,478	204,983	203,612	18,849
Total capital assets not being depreciated	<u>\$ 67,528</u>	<u>\$ 204,983</u>	<u>\$ 203,612</u>	<u>\$ 68,899</u>
Capital assets being depreciated:				
Infrastructure	\$ 12,100,656	\$ 233,818	\$ -	\$ 12,334,474
Less: accumulated depreciation	<u>(6,899,905)</u>	<u>(370,966)</u>	<u>-</u>	<u>(7,270,871)</u>
Total capital assets being depreciated, net	<u>\$ 5,200,751</u>	<u>\$ (137,148)</u>	<u>\$ -</u>	<u>\$ 5,063,603</u>
Net capital assets	<u><u>\$ 5,268,279</u></u>	<u><u>\$ 67,835</u></u>	<u><u>\$ 203,612</u></u>	<u><u>\$ 5,132,502</u></u>

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 5—CAPITAL ASSETS: (CONTINUED)

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

Governmental activities:	
General government administration	\$ 5,278
Public safety	53,186
Public works	97,591
Parks, recreation, and cultural	10,591
Total depreciation expense-governmental activities	<u>\$ 166,646</u>
Business-type activities:	
Water Fund	\$ 226,541
Sewer Fund	370,966
Total depreciation expense-business-type activities	<u>\$ 597,507</u>

NOTE 6—LONG-TERM OBLIGATIONS:**Primary Government—Governmental Activity Long-term Obligations:**

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

	Balance June 30, 2012	Issuances	Retirements	Balance June 30, 2013
Capital leases	\$ 323,407	\$ 30,605	\$ 52,721	\$ 301,291
Notes payable	150,000	289,300	28,806	410,494
Accrued landfill and postclosure liability	142,500	-	7,500	135,000
Compensated absences	121,781	-	22,406	99,375
Total	<u>\$ 737,688</u>	<u>\$ 319,905</u>	<u>\$ 111,433</u>	<u>\$ 946,160</u>

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

Year Ending June 30,	Principal	Interest
2014	\$ 363,577	\$ 20,689
2015	77,071	13,453
2016	63,118	10,153
2017	54,624	8,396
2018	24,434	6,734
2019-2023	128,961	16,607
Total	<u>\$ 711,785</u>	<u>\$ 76,032</u>

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

Primary Government—Governmental Activity Long-term Obligations: (Continued)

Details of Long-term Obligations:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Capital leases:		
\$75,103 Capital lease dated October 12, 2010 with annual payments of \$16,702, including interest at 6.95%. Final installment due September 12, 2015.	\$ 40,209	\$ 14,696
\$30,606 Capital lease dated March 18, 2013 with annual payments of \$10,801.86, including interest at 5.8%. Final installment due March 18, 2015.	19,804	9,614
 \$335,000 Capital lease dated December 15, 2008 with annual payments of \$31,799, including interest at 4.634%. Final installment due in 2023.	 241,278	 20,576
Total capital leases	\$ 301,291	\$ 44,886
Notes Payable:		
 \$150,000 note payable dated January 25, 2012 for repairs to the City Hall roof and Maintenance Building. Payments of \$31,851 due annually with the final installment due January 25, 2017, bearing interest at 2.03%.	 \$ 121,194	 \$ 29,391
 \$1,200,000 General Obligation Water and Sewer Utility Bond Anticipation note payable dated June 12, 2013. The principal of the Note shall be due and payable on the earlier of (a) issuance and sale of the Town's \$1,200,000 General Obligation Water and Sewer Utility Bond (the "Bond") or (b) one (1) year from the date of issuance of the Note. Interest paid quarterly at 1.02%. The note is allocated between funds as follows: General 24%, Sewer 25%, and Water 51%.	 289,300	 289,300
Total notes payable	\$ 410,494	\$ 318,691
Accrued landfill and postclosure liability	\$ 135,000	\$ -
Compensated absences	\$ 99,375	\$ 9,938
Total	\$ 644,869	\$ 338,629

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

Primary Government—Governmental Activity Long-term Obligations: (Continued)

The assets acquired through capital leases are as follows:

Asset:		
Equipment	\$	665,747
Less: Accumulated depreciation		<u>(277,456)</u>
Total	\$	<u><u>388,291</u></u>

Primary Government-Enterprise Activity Long-term Obligations:

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

	Balance June 30, 2012	Issuances	Retirements	Balance June 30, 2013
Revenue bonds	\$ 2,842,875	\$ -	\$ 270,750	\$ 2,572,125
Virginia revolving loan fund	2,829,664	-	116,013	2,713,651
Note payable	-	2,097,700	-	2,097,700
Compensated absences	<u>38,092</u>	<u>2,323</u>	<u>-</u>	<u>40,415</u>
Total	\$ <u><u>5,710,631</u></u>	\$ <u><u>2,100,023</u></u>	\$ <u><u>386,763</u></u>	\$ <u><u>7,423,891</u></u>

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

Year Ending June 30,	Principal	Interest
2014	\$ 1,299,137	\$ 53,251
2015	1,577,093	42,305
2016	391,801	28,253
2017	393,560	26,493
2018	395,374	24,679
2019-2023	1,870,718	94,175
2024-2028	706,824	39,695
2029-2033	359,716	511
2034-2038	318,933	-
2039-2040	<u>70,320</u>	<u>-</u>
Total	\$ <u><u>7,383,476</u></u>	\$ <u><u>309,362</u></u>

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

Primary Government-Enterprise Activity Long-term Obligations: (Continued)

Details of long-term obligations:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>Revenue Bonds:</u>		
\$5,415,000 Wastewater System Revenue Bond, Series 2000 (VRA), maturing semi-annually in equal payments of \$135,375 through September 1, 2022, 0% interest.	\$ 2,572,125	\$ 270,750
\$760,500 Water Revenue Bonds (VRA), maturing semi-annually in equal installments of \$12,675 through November 1, 2038, 0% interest.	646,425	25,350
\$1,250,000 Water Revenue Bonds (VRA), maturing semi-annually in equal installments of \$42,759, including interest at 3.05%, through November 1, 2028.	1,048,665	53,900
\$1,153,088 Water Revenue Bonds (VRA), maturing semi-annually in equal installments of \$19,218 through November 1, 2039, 0% interest.	<u>1,018,561</u>	<u>38,437</u>
Total bonds payable	\$ <u>5,285,776</u>	\$ <u>388,437</u>
 \$1,200,000 General Obligation Water and Sewer Utility Bond Anticipation note payable dated June 12, 2013. The principal of the Note shall be due and payable on the earlier of (a) issuance and sale of the Town's \$1,200,000 General Obligation Water and Sewer Utility Bond (the "Bond") or (b) one (1) year from the date of issuance of the Note. Interest paid quarterly at 1.02%. The note is allocated between funds as follows: General 24%, Sewer 25%, and Water 51%.	 910,700	 910,700
 \$1,187,000 General Obligation Sewer Utility Bond Anticipation note payable dated June 12, 2013. The principal of the Note shall be due and payable on the earlier of (a) issuance and sale of the Town's \$1,187,000 General Obligation Sewer Utility Bond (the "Bond"), to be issued and sold under the Virginia Clean Water Revolving Loan Fund Program or (b) two (2) years from the date of issuance of the Note. Interest is paid quarterly at 1.04%.	 1,187,000	 -
Total notes payable	\$ <u>2,097,700</u>	\$ <u>910,700</u>
Compensated absences	\$ 40,415	\$ 4,042
Total	\$ <u><u>7,423,891</u></u>	\$ <u><u>1,303,179</u></u>

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 7—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 is comprised of the following:

A. Unavailable Property Tax Revenue

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$620,309 (including 2nd ½ tax billings of \$606,017 not due until December 5) at June 30, 2013.

NOTE 8—COMPENSATED ABSENCES:

Town employees earn sick leave based upon length of service. Upon termination of 10 years of employment, employees are paid 25% sick leave. Maximum payout of sick leave at retirement is \$2,000. Vacation leave is earned at various rates depending on the date of employment and number of years of service. Vacation leave accrued above the maximum allowable must be taken by the end of the year or it will be lost. Upon separation or retirement, an employee shall be paid for all accrued annual leave. The Town has outstanding accrued compensated absences totaling \$99,375 in the Primary Government and \$40,415 in the Enterprise Funds.

NOTE 9—DEFINED BENEFIT PENSION PLAN:

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 9—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

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 VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 10.5% of the annual covered payroll.

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 9—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

C. Annual Pension Cost

For the fiscal year ended June 30, 2013, the Town's annual pension cost of \$146,016 was equal to the required and actual contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 116,235	100%	\$ -
June 30, 2012	117,929	100%	-
June 30, 2013	146,016	100%	-

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial 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 5.6% per year, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 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 75.13% funded. The actuarial accrued liability for benefits was \$8,285,256, and the actuarial value of assets was \$6,224,988, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,060,268. The covered payroll (annual payroll of active employees covered by the plan) was \$1,337,309 and the ratio of the UAAL to the covered payroll was 154.06%.

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

NOTE 10—CONTINGENT LIABILITIES (INCLUDING FEDERALLY ASSISTED PROGRAMS-COMPLIANCE AUDITS):

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 11—RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Town pays an annual premium to the Association for its workers' compensation insurance. The Town also joined together with other local governments in Virginia to form the Virginia Municipal Liability Pool, a public entity risk pool currently operating as a common property and liability program for participating local governments. The Town pays annual premiums to the Pool for its automobile, liability, property, boiler and machinery, and fidelity crime coverage.

In the event of a loss deficit and depletion of all available excess insurance, these pools may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Town continues to carry commercial insurance for employee health and accident insurance. Settled claims resulting from this risk have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12—LITIGATION:

At June 30, 2013, 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 the Town.

NOTE 13—CLOSURE AND POSTCLOSURE CARE COST:

State and federal laws and regulations require the Town to place a final cover on its Peters Mountain landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care liabilities in each period based on landfill capacity used as of each balance sheet date. The \$135,000 reported as landfill postclosure care liability at June 30, 2013, represents the Town's estimate of its share of the postclosure monitoring costs based on the use of 100 percent of the estimated capacity of the landfill. Closure of the landfill site has been completed in prior years. The City of Covington is primarily responsible for postclosure costs and the Town of Clifton Forge pays the City its share of the costs. The Town of Clifton Forge's expected portion of these contracts is 12%. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 14—AGREEMENT WITH ALLEGHANY COUNTY FOR FUTURE JOINT ENDEAVORS:

In order to secure the expansion of Westvaco Corporation in Alleghany County, the Town deeded property known as the "airport property" to Alleghany County, which in turn sold the property to Westvaco Corporation. The agreement with the County provides for the proceeds from the sale of the property to be placed in a fund for future joint endeavors of the Town and County. The proceeds of this sale and income earned on the investments are included as an agency fund in the accompanying financial statements.

TOWN OF CLIFTON FORGE, VIRGINIA

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

NOTE 15—SEGMENT INFORMATION-ENTERPRISE FUNDS:

The Town maintains two enterprise funds. The Water Fund and Sewer Fund account for the provision of basic utility services to all citizens. Selected segment information for the year ended June 30, 2013, is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues	\$ 1,003,666	\$ 1,530,487	\$ 2,534,153
Depreciation	226,541	370,966	597,507
Operating income (loss)	145,815	409,919	555,734
Net income	282	294,887	295,169
Capital assets additions	435,871	235,189	671,060
Net working capital	488,308	363,963	852,271
Total assets	6,170,508	7,649,300	13,819,808
Bonds payable	3,321,501	4,061,975	7,383,476
Total net position/equity	2,669,732	3,492,607	6,162,339

NOTE 16—RESTRICTED CASH:

Cash is restricted for the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Unspent bond proceeds	\$ 289,300	\$ 2,097,762	\$ 2,387,062
Utility deposits held	-	59,716	59,716
Forfeited assets	5,852	-	5,852
Total	<u>\$ 295,152</u>	<u>\$ 2,157,478</u>	<u>\$ 2,452,630</u>

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Required Supplementary Information

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General Fund

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

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 584,000	\$ 584,000	\$ 610,187	\$ 26,187
Other local taxes	861,700	861,700	772,556	(89,144)
Permits, privilege fees, and regulatory licenses	7,950	7,950	4,780	(3,170)
Fines and forfeitures	9,500	9,500	8,072	(1,428)
Revenue from the use of money and property	7,500	7,500	10,783	3,283
Charges for services	57,000	57,000	56,078	(922)
Miscellaneous	42,000	47,500	77,034	29,534
Recovered costs	20,255	128,980	75,945	(53,035)
Intergovernmental revenues:				
Commonwealth	1,075,208	1,075,208	1,249,349	174,141
Federal	-	271,000	81,543	(189,457)
Total revenues	\$ 2,665,113	\$ 3,050,338	\$ 2,946,327	\$ (104,011)
EXPENDITURES				
Current:				
General government administration	\$ 271,191	\$ 272,585	\$ 269,640	\$ 2,945
Public safety	966,187	974,258	1,001,607	(27,349)
Public works	682,794	691,084	812,979	(121,895)
Health and welfare	-	-	7,117	(7,117)
Parks, recreation, and cultural	291,169	295,276	286,893	8,383
Community development	133,918	133,918	134,365	(447)
Nondepartmental	184,334	192,648	233,582	(40,934)
Capital projects	326,168	667,071	275,038	392,033
Debt service:				
Principal retirement	104,352	89,572	81,528	8,044
Interest and other fiscal charges	-	-	18,702	(18,702)
Total expenditures	\$ 2,960,113	\$ 3,316,412	\$ 3,121,451	\$ 194,961
Excess (deficiency) of revenues over (under) expenditures	\$ (295,000)	\$ (266,074)	\$ (175,124)	\$ 90,950
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 28,004	\$ 28,004
Issuance of bond anticipation note payable	295,000	295,000	289,300	(5,700)
Issuance of capital leases	-	-	30,605	30,605
Total other financing sources (uses)	\$ 295,000	\$ 295,000	\$ 347,909	\$ 52,909
Net change in fund balances	\$ -	\$ 28,926	\$ 172,785	\$ 143,859
Fund balances - beginning	-	(28,926)	269,926	298,852
Fund balances - ending	\$ -	\$ -	\$ 442,711	\$ 442,711

Virginia Retirement System
Schedule of Pension Funding Progress

Actuarial Valuation Date		Actuarial Value of Assets (AVA) (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL) (b-a)		Funded Ratio (a/b)		Annual Covered Payroll (c)		UAAL as % of Covered Payroll ((b-a)/c)
06/30/12	\$	6,224,988	\$	8,285,256	\$	2,060,268		75.13%	\$	1,337,309		154.06%
06/30/11		6,408,479		7,818,913		1,410,434		81.96%		1,251,041		112.74%
06/30/10		6,477,714		7,529,787		1,052,073		86.03%		1,465,288		71.80%

Other Supplementary Information

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Combining and Individual Fund Statements and Schedules

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Combining Statement of Fiduciary Net Position
 Fiduciary Funds
 June 30, 2013

	Private-Purpose Trust Funds			Agency Funds
	Mountain View Cemetery	Crown Hill Cemetery	Total Private-Purpose Trust Funds	Joint Development Investment Fund
ASSETS				
Cash and cash equivalents	\$ 237,986	\$ 33,358	\$ 271,344	\$ 31,707
Due from other funds	14,066	-	14,066	-
Total assets	<u>\$ 252,052</u>	<u>\$ 33,358</u>	<u>\$ 285,410</u>	<u>\$ 31,707</u>
LIABILITIES				
Amounts held for others	\$ -	\$ -	\$ -	\$ 31,707
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,707</u>
NET POSITION				
Held in trust for cemeteries	<u>\$ 252,052</u>	<u>\$ 33,358</u>	<u>\$ 285,410</u>	

Combining Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2013

	Mountain View Cemetery Private-Purpose Trust	Crown Hill Cemetery Private-Purpose Trust	Total Private-Purpose Trust
ADDITIONS			
Contributions:			
Sale of cemetery lots	\$ 7,050	\$ -	\$ 7,050
Total additions	\$ 7,050	\$ -	\$ 7,050
DEDUCTIONS			
Total deductions	\$ -	\$ -	\$ -
Change in net position	\$ 7,050	\$ -	\$ 7,050
Net position - beginning	\$ 245,002	\$ 33,358	\$ 278,360
Net position - ending	\$ 252,052	\$ 33,358	\$ 285,410

Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2013

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Joint Development Investment Fund:				
ASSETS				
Cash and cash equivalents	\$ 31,450	\$ 257	\$ -	\$ 31,707
Total assets	<u>\$ 31,450</u>	<u>\$ 257</u>	<u>\$ -</u>	<u>\$ 31,707</u>
LIABILITIES				
Amounts held for others	\$ 31,450	\$ 257	\$ -	\$ 31,707
Total liabilities	<u>\$ 31,450</u>	<u>\$ 257</u>	<u>\$ -</u>	<u>\$ 31,707</u>

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Supporting Schedules

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

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 310,000	\$ 310,000	\$ 302,412	\$ (7,588)
Real and personal public service corporation taxes	39,500	39,500	39,478	(22)
Personal property taxes	219,500	219,500	252,924	33,424
Machinery and tools taxes	2,500	2,500	2,357	(143)
Penalties	5,000	5,000	7,235	2,235
Interest	7,500	7,500	5,781	(1,719)
Total general property taxes	\$ 584,000	\$ 584,000	\$ 610,187	\$ 26,187
Other local taxes:				
Local sales and use taxes	\$ 115,000	\$ 115,000	\$ 113,778	\$ (1,222)
Consumers' utility taxes	260,000	260,000	163,778	(96,222)
Business license taxes	160,000	160,000	179,847	19,847
Motor vehicle licenses	57,000	57,000	53,129	(3,871)
Bank stock taxes	90,000	90,000	61,582	(28,418)
Restaurant food taxes	167,000	167,000	184,978	17,978
Tobacco tax	12,700	12,700	15,464	2,764
Total other local taxes	\$ 861,700	\$ 861,700	\$ 772,556	\$ (89,144)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 1,450	\$ 1,450	\$ 1,392	\$ (58)
Zoning Fees	500	500	500	-
Building permits	6,000	6,000	2,888	(3,112)
Total permits, privilege fees, and regulatory licenses	\$ 7,950	\$ 7,950	\$ 4,780	\$ (3,170)
Fines and forfeitures:				
Court fines and forfeitures	\$ 9,500	\$ 9,500	\$ 8,072	\$ (1,428)
Revenue from use of money and property:				
Revenue from use of money	\$ 1,500	\$ 1,500	\$ 1,699	\$ 199
Revenue from use of property	6,000	6,000	9,084	3,084
Total revenue from use of money and property	\$ 7,500	\$ 7,500	\$ 10,783	\$ 3,283
Charges for services:				
Charges for fire protection	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Charges for animal protection	250	250	-	(250)
Charges for sanitation and waste removal	250	250	675	425
Charges for library	6,500	6,500	5,403	(1,097)
Total charges for services	\$ 57,000	\$ 57,000	\$ 56,078	\$ (922)
Miscellaneous revenue:				
Sale of cemetery lots	\$ 4,000	\$ 4,000	\$ 2,350	\$ (1,650)
Friends of Library	3,000	5,000	4,604	(396)
Sale of Salvage/ Surplus	18,000	18,000	18,771	771
Theatre for performing arts	-	-	925	925
Library donations/book club	2,000	2,500	2,140	(360)
Firing range	-	3,000	-	(3,000)
Miscellaneous	15,000	15,000	48,244	33,244
Total miscellaneous revenue	\$ 42,000	\$ 47,500	\$ 77,034	\$ 29,534

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2013 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (continued)				
Revenue from local sources: (continued)				
Recovered costs:				
Alleghany County - library	\$ 20,255	\$ 20,255	\$ 20,225	\$ (30)
Other costs	-	108,725	55,720	(53,005)
Total recovered costs	\$ 20,255	\$ 128,980	\$ 75,945	\$ (53,035)
Total revenue from local sources	\$ 1,589,905	\$ 1,704,130	\$ 1,615,435	\$ (88,695)
Intergovernmental Revenue:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 21,000	\$ 21,000	\$ 7,532	\$ (13,468)
Communications taxes	-	-	96,162	96,162
PPTRA Reimbursement	316,644	316,644	316,644	-
Total noncategorical aid	\$ 337,644	\$ 337,644	\$ 420,338	\$ 82,694
Categorical aid:				
Virginia Commission for the Arts grant	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
DJC Grants	188,380	188,380	188,380	-
State disaster recovery grant	-	-	10,864	10,864
Department of conservation and recreation	-	-	12,000	12,000
Department of fire programs funds	12,384	12,384	-	(12,384)
Litter control grant	2,300	2,300	3,290	990
Street and highway maintenance funds	500,000	500,000	580,146	80,146
Library	29,500	29,500	29,331	(169)
Total categorical aid	\$ 737,564	\$ 737,564	\$ 829,011	\$ 91,447
Total revenue from the Commonwealth	\$ 1,075,208	\$ 1,075,208	\$ 1,249,349	\$ 174,141
Revenue from the Federal Government:				
Categorical aid:				
DHCD planning grant	\$ -	\$ -	\$ 27,000	\$ 27,000
FEMA disaster recovery grant	-	-	34,300	34,300
Transportation Enhancement Grant	-	271,000	20,243	(250,757)
Total categorical aid	\$ -	\$ 271,000	\$ 81,543	\$ (189,457)
Total revenue from the federal government	\$ -	\$ 271,000	\$ 81,543	\$ (189,457)
Total General Fund	\$ 2,665,113	\$ 3,050,338	\$ 2,946,327	\$ (104,011)

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

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 16,102	\$ 15,108	\$ 14,442	\$ 666
General and financial administration:				
Town manager	\$ 107,995	\$ 112,156	\$ 108,376	\$ 3,780
Legal services	7,312	7,956	7,956	-
Independent auditor	15,625	14,116	12,091	2,025
Finance	124,157	123,249	126,775	(3,526)
Total general and financial administration	\$ 255,089	\$ 257,477	\$ 255,198	\$ 2,279
Total general government administration	\$ 271,191	\$ 272,585	\$ 269,640	\$ 2,945
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 773,795	\$ 775,170	\$ 783,828	\$ (8,658)
Fire and rescue services:				
Fire department	\$ 192,392	\$ 199,088	\$ 217,779	\$ (18,691)
Total public safety	\$ 966,187	\$ 974,258	\$ 1,001,607	\$ (27,349)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 525,526	\$ 533,688	\$ 56,503	\$ 477,185
Administration	47,774	44,922	45,836	(914)
Eligible Streets	-	-	596,742	(596,742)
Total maintenance of highways, streets, bridges & sidewalks	\$ 573,300	\$ 578,610	\$ 699,081	\$ (120,471)
Maintenance of general buildings and grounds:				
General properties	\$ 36,520	\$ 35,595	\$ 37,181	\$ (1,586)
Cemeteries	72,974	76,879	76,717	162
Total maintenance of general buildings and grounds	\$ 109,494	\$ 112,474	\$ 113,898	\$ (1,424)
Total public works	\$ 682,794	\$ 691,084	\$ 812,979	\$ (121,895)
Health and welfare:				
Welfare:				
Tax relief for the elderly	\$ -	\$ -	\$ 7,117	\$ (7,117)

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

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and grounds	\$ 115,128	\$ 116,385	\$ 115,251	\$ 1,134
Cultural enrichment:				
Cultural enrichment	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Library:				
Library	\$ 166,041	\$ 168,891	\$ 161,642	\$ 7,249
Total parks, recreation, and cultural	\$ 291,169	\$ 295,276	\$ 286,893	\$ 8,383
Community development:				
Planning and community development:				
Planning Commission	\$ 2,915	\$ 2,915	\$ 2,913	\$ 2
Community development	124,503	124,503	124,952	(449)
Other Planning Community Dev.	6,500	6,500	6,500	-
Total planning and community development	\$ 133,918	\$ 133,918	\$ 134,365	\$ (447)
Total community development	\$ 133,918	\$ 133,918	\$ 134,365	\$ (447)
Nondepartmental:				
Nondepartmental	\$ 171,460	\$ 178,896	\$ 219,830	\$ (40,934)
Contingencies	12,874	13,752	13,752	-
Total nondepartmental	\$ 184,334	\$ 192,648	\$ 233,582	\$ (40,934)
Capital projects:				
Capital Outlay	\$ 326,168	\$ 667,071	\$ 275,038	\$ 392,033
Debt service:				
Principal retirement	\$ 104,352	\$ 89,572	\$ 81,528	\$ 8,044
Interest and other fiscal charges	-	-	18,702	(18,702)
Total debt service	\$ 104,352	\$ 89,572	\$ 100,230	\$ (10,658)
Total General Fund	\$ 2,960,113	\$ 3,316,412	\$ 3,121,451	\$ 194,961

Schedule of Revenues, Expenses and Changes in Net Position
 Water Enterprise Fund
 For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Operating Revenues:				
Sale of services, commodities and properties:				
Sale of water	\$ 582,678	\$ 582,678	\$ 558,063	\$ (24,615)
Connection fees	1,810	1,810	-	(1,810)
Administration fees	2,000	2,000	1,243	(757)
County water	470,000	470,000	436,987	(33,013)
Penalties	8,000	8,000	7,373	(627)
Total operating revenue	\$ 1,064,488	\$ 1,064,488	\$ 1,003,666	\$ (60,822)
Operating Expenses:				
Water filtration plant	\$ 575,341	\$ 565,842	\$ 443,576	\$ 122,266
Transmissional distribution	179,542	179,542	142,159	37,383
Depreciation	-	-	226,541	(226,541)
Capital outlay	-	632,537	45,575	586,962
Total operating expenses	\$ 754,883	\$ 1,377,921	\$ 857,851	\$ 520,070
Net operating income	\$ 309,605	\$ (313,433)	\$ 145,815	\$ 459,248
Non-operating revenues (expenses):				
Interest expense	(189,940)	(189,940)	(36,988)	152,952
Contingencies	(119,665)	(119,665)	(109,731)	9,934
Net non-operating revenues (expenses)	\$ (309,605)	\$ (309,605)	\$ (146,719)	\$ 162,886
Net income (loss) before contributions and operating transfers	\$ -	\$ (623,038)	\$ (904)	\$ 622,134
Capital contributions- intergovernmental	\$ -	\$ 15,188	\$ 15,188	\$ -
Fund Transfers	-	607,850	(14,002)	(621,852)
Net income (loss)	\$ -	\$ -	\$ 282	\$ 282

Schedule of Revenues, Expenses and Changes in Net Position
 Sewer Enterprise Fund
 For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Operating Revenues:				
Sale of services, commodities and properties:				
Sewage treatment charges	\$ 1,517,321	\$ 1,517,321	\$ 1,529,280	\$ 11,959
Administration fees	2,000	2,000	1,193	(807)
Miscellaneous	-	-	14	14
Penalties	12,000	12,000	-	(12,000)
Total operating revenue	<u>\$ 1,531,321</u>	<u>\$ 1,531,321</u>	<u>\$ 1,530,487</u>	<u>\$ (834)</u>
Operating Expenses:				
Wastewater treatment plant	\$ 951,500	\$ 938,292	\$ 573,383	\$ 364,909
Sewage collection	75,429	101,812	80,863	20,949
Sewer I and I	108,464	97,289	67,796	29,493
Depreciation	-	-	370,966	(370,966)
Capital outlay	-	302,850	27,560	275,290
Total operating expenses	<u>\$ 1,135,393</u>	<u>\$ 1,440,243</u>	<u>\$ 1,120,568</u>	<u>\$ 319,675</u>
Net operating income	<u>\$ 395,928</u>	<u>\$ 91,078</u>	<u>\$ 409,919</u>	<u>\$ 318,841</u>
Non-operating Revenues (expenses):				
Intergovernmental revenue:				
Federal	\$ -	\$ 2,000	\$ -	\$ (2,000)
Contingencies	(104,931)	(104,931)	(96,816)	8,115
Interest revenue	-	-	62	62
Interest expense	(290,997)	(290,997)	(4,276)	286,721
Net non-operating revenues (expenses)	<u>\$ (395,928)</u>	<u>\$ (393,928)</u>	<u>\$ (101,030)</u>	<u>\$ 292,898</u>
Net income (loss) before operating transfers	<u>\$ -</u>	<u>\$ (302,850)</u>	<u>\$ 308,889</u>	<u>\$ 611,739</u>
Fund Transfers	<u>-</u>	<u>302,850</u>	<u>(14,002)</u>	<u>(316,852)</u>
Net income (loss)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 294,887</u></u>	<u><u>\$ 294,887</u></u>

Other Statistical Information

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Government-wide Information

TOWN OF CLIFTON FORGE, VIRGINIA

Government-Wide Expenses by Function
Last Nine Fiscal Years (1)

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development
2004-05	\$ 303,027	\$ 941,176	\$ 681,786	\$ 401,349	\$ 4,820
2005-06	292,945	953,817	934,516	447,848	29,907
2006-07	352,034	1,046,016	774,507	444,835	8,418
2007-08	347,715	961,637	597,751	299,743	24,061
2008-09	421,016	1,056,234	634,749	389,814	30,130
2009-10	390,193	928,861	913,542	304,956	249,267
2010-11	522,019	992,001	729,685	268,278	88,082
2011-12	522,765	982,527	737,596	277,107	89,307
2012-13	520,236	1,048,094	807,040	275,235	127,727

(1) Information has only been available for 9 years.

Table 1

Interest on Long- Term Debt		Other	Water Fund	Sewer Fund	Total
\$	4,105	\$ 4,378	\$ 678,462	\$ 1,152,973	\$ 4,172,076
	2,107	4,378	665,878	1,112,552	4,443,948
	5,702	6,509	716,525	1,067,395	4,421,941
	957	7,756	713,448	763,755	3,716,823
	-	10,031	946,697	1,181,826	4,670,497
	20,097	8,787	930,702	1,152,799	4,899,204
	12,635	8,825	923,244	1,129,984	4,674,753
	16,528	6,447	1,111,478	1,428,145	5,171,900
	18,702	7,117	1,004,570	1,221,660	5,030,381

TOWN OF CLIFTON FORGE, VIRGINIA

Government-Wide Revenues

Last Nine Fiscal Years (1)

PROGRAM REVENUES				
Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
2004-05	\$ 1,944,194	\$ 692,069	\$ 2,400	
2005-06	1,856,013	788,706	2,700	
2006-07	1,889,741	893,907	-	
2007-08	1,878,420	777,365	-	
2008-09	1,999,013	621,831	368,977	
2009-10	2,204,909	720,419	180,290	
2010-11	2,223,803	921,231	32,864	
2011-12	2,713,934	757,442	19,223	
2012-13	2,603,083	910,554	15,188	

(1) Information has only been available for 9 years.

Table 2

GENERAL REVENUES						
General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total	
\$ 494,587	\$ 756,177	\$ 29,595	\$ 64,187	\$ 331,212	\$ 4,314,421	
520,330	804,928	28,004	17,598	340,636	4,358,915	
573,258	896,580	105,880	10,832	340,291	4,710,489	
498,919	838,669	78,079	26,980	336,829	4,435,261	
623,600	867,492	22,530	141,059	337,892	4,982,394	
594,157	742,933	5,789	26,973	437,012	4,912,482	
574,130	771,811	3,151	26,432	436,076	4,989,498	
638,317	783,193	9,010	23,289	422,021	5,366,429	
536,411	772,556	10,845	77,034	420,338	5,346,009	

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Fund Information

TOWN OF CLIFTON FORGE, VIRGINIA

General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year		General Government Administration		Public Safety		Public Works		Parks, Recreation, and Cultural
2003-04	\$	375,498	\$	814,648	\$	484,867	\$	324,448
2004-05		347,198		892,678		672,548		392,269
2005-06		259,463		935,624		917,064		427,499
2006-07		286,748		968,469		836,447		435,492
2007-08		225,326		943,127		697,967		393,089
2008-09		278,951		971,663		659,116		380,012
2009-10		266,659		868,090		902,409		298,709
2010-11		277,385		956,894		858,419		281,446
2011-12		263,094		914,198		815,527		280,794
2012-13		269,640		1,001,607		810,957		286,893

(1) Includes General Fund of Primary Government.

Table 3

Community Development	Capital Projects	Non- Departmental	Debt Service	Other	Total
\$ 41,455	\$ 24,260	\$ -	\$ 41,189	\$ -	\$ 2,106,365
4,820	5,762	-	41,189	4,378	2,356,464
4,825	4,915	-	56,807	9,352	2,615,549
8,418	32,268	-	19,465	6,509	2,593,816
6,943	217,119	-	20,593	7,756	2,511,920
5,050	562,928	-	15,509	8,031	2,881,260
238,142	243,773	-	2,886	95,183	2,915,851
190,721	39,912	210,165	85,106	8,825	2,908,873
127,224	197,206	239,566	72,078	6,447	2,916,134
134,365	275,038	233,582	102,252	7,117	3,121,451

TOWN OF CLIFTON FORGE, VIRGINIA

General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year		General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses		Fines and Forfeitures		Revenue from the Use of Money and Property
2003-04	\$	553,854	\$ 774,270	\$ 776	\$	12,892	\$	25,676
2004-05		495,121	756,177	1,889		20,813		32,797
2005-06		509,995	804,928	1,943		15,485		28,004
2006-07		536,047	896,577	1,556		12,873		105,880
2007-08		544,255	838,669	2,113		7,659		78,079
2008-09		615,168	844,962	1,658		14,505		22,530
2009-10		670,058	742,933	4,848		11,685		5,789
2010-11		578,391	771,811	6,156		8,242		3,151
2011-12		588,602	783,193	8,951		11,966		9,010
2012-13		610,187	772,556	4,780		8,072		10,783

(1) Includes General Fund of the Primary Government.

Table 4

Charges for Services	Miscellaneous	Recovered Costs	Inter- governmental	Total
\$ 20,043	\$ 20,860	\$ 24,461	\$ 856,236	\$ 2,289,068
21,728	64,187	57,243	1,070,328	2,520,283
21,266	17,598	83,592	1,122,619	2,605,430
29,324	10,832	58,780	1,220,968	2,872,837
26,148	26,980	283,826	1,047,725	2,855,454
26,376	141,059	63,384	959,723	2,689,365
74,699	26,973	121,327	1,157,431	2,815,743
56,493	26,432	145,225	1,357,307	2,953,208
59,413	23,289	100,080	1,179,463	2,763,967
56,078	77,034	75,945	1,330,892	2,946,327

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax (1) Collections	Percent of Levy Collected	Delinquent Tax (1,2) Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
2003-04	\$ 542,950	\$ 536,905	98.89%	\$ 27,415	\$ 564,320	103.94%	\$ 173,655	31.98%
2004-05	468,989	436,776	93.13%	28,972	465,748	99.31%	192,685	41.09%
2005-06	496,586	461,247	92.88%	20,196	481,443	96.95%	133,773	26.94%
2006-07	516,859	460,941	89.18%	24,262	485,203	93.88%	171,210	33.13%
2007-08	540,917	506,974	93.72%	17,645	524,619	96.99%	152,441	28.18%
2008-09	606,631	572,722	94.41%	20,528	593,250	97.79%	165,573	27.29%
2009-10	546,457	521,816	95.49%	81,812	603,628	110.46%	89,452	16.37%
2010-11	568,628	535,191	94.12%	24,326	559,517	98.40%	92,067	16.19%
2011-12	596,623	551,944	92.51%	22,982	574,926	96.36%	106,660	17.88%
2012-13	596,623	571,025	95.71%	26,146	597,171	100.09%	118,992	19.94%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property	Mobile Homes	Public Utility (2)		Total
				Real Estate	Personal Property	
2003-04	\$ 105,844,900	\$ 8,256,294	\$ 32,100	\$ 15,634,712	\$ 707,261	\$ 130,475,267
2004-05	106,031,400	7,523,173	32,100	13,469,757	31,117	127,087,547
2005-06	106,152,100	8,375,595	122,100	12,548,382	25,754	127,223,931
2006-07	106,205,200	8,451,319	39,200	11,607,909	23,433	126,327,061
2007-08	144,981,500	9,081,431	62,100	16,875,857	3,988	171,004,876
2008-09	144,390,500	9,009,054	48,900	12,151,874	3,637	165,603,965
2009-10	141,747,600	8,046,720	37,300	12,793,206	13,854	162,638,680
2010-11	145,606,800	8,289,201	32,400	17,325,209	15,947	171,269,557
2011-12	146,306,600	8,604,873	49,900	18,970,801	23,007	173,955,181
2012-13	146,111,800	8,905,432	53,900	18,310,728	15,307	173,397,167

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

(2) Assessed values are established by the State Corporation Commission.

Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2003-04	0.23	0.23	6.70	6.70
2004-05	0.23	0.23	6.70	6.70
2005-06	0.23	0.23	6.70	6.70
2006-07	0.23	0.23	6.70	6.70
2007-08	0.17	0.23	6.70	6.70
2008-09	0.21	0.21	6.70	6.70
2009-10	0.21	0.21	6.70	6.70
2010-11	0.21	0.21	6.70	6.70
2011-12	0.21	0.21	6.70	6.70
2012-13	0.21	0.21	6.70	6.70

(1) Per \$100 of assessed value.

Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Less:		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Service Monies Available	Debt Payable from Enterprise Activities			
2003-04	4,289	\$ 130,475,267	\$ 6,203,053	\$ -	\$ 6,126,887	\$ 76,166	0.06%	\$ 18
2004-05	4,289	127,087,547	5,540,468	-	5,501,386	39,082	0.03%	9
2005-06	4,289	127,223,931	5,124,833	-	5,124,833	-	0.00%	-
2006-07	4,289	126,327,061	4,747,222	-	4,747,222	-	0.00%	-
2007-08	4,289	171,004,876	4,368,538	-	4,368,538	-	0.00%	-
2008-09	4,289	165,603,965	6,089,438	-	6,089,438	-	0.00%	-
2009-10	4,289	162,638,680	6,521,998	-	6,521,998	-	0.00%	-
2010-11	4,289	171,269,557	6,111,596	-	6,111,596	-	0.00%	-
2011-12	4,289	173,955,181	5,822,539	-	5,672,539	150,000	0.09%	35
2012-13	4,289	173,409,767	7,793,970	-	5,285,776	2,508,194	1.45%	585

(1) Weldon Cooper Center for Public Service at the University of Virginia.

(2) From Table 6.

(3) Includes all long-term general obligation bonded debt, revenue bonds, and notes payable.

Computation of Legal Debt Margin
At June 30, 2013

Total Assessed Value of Real Estate	\$ <u>164,422,528</u>
Legal Debt Margin:	\$ 16,442,253
Less: Gross Indebtedness	\$ <u>2,508,194</u>
Legal Margin for Creation of Additional Debt	\$ <u>18,950,447</u>

Compliance

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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 Clifton Forge, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund, of Town of Clifton Forge, 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 Clifton Forge, Virginia's basic financial statements, and have issued our report thereon dated November 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Clifton Forge, 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 Clifton Forge, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Clifton Forge, 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 Clifton Forge, 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, Farmer, Cox Associates
Charlottesville, Virginia
November 29, 2013