

TOWN OF POUND, VIRGINIA

AUDIT REPORT

Year Ended June 30, 2013

TOWN OF POUND, VIRGINIA
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AUDIT REPORT
Year Ended June 30, 2013

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TOWN OF POUND, VIRGINIA
TOWN OFFICIALS

MAYOR: George E. Dean

TOWN COUNCIL: Jerry Wolfe (Vice-Mayor)
James Pelfrey
Glenn Cantrell
Larry Wright
Clifton Cauthorne Jr.

OTHER OFFICIALS: Town Manager – Jane Bennett
Treasurer/Clerk – Linda Meade
Police Chief – Jeff Rose
Legal Counsel - Gary Gilliam

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

& Consultants

****BRIAN K. BLANTON, C.P.A.**
***CHARLES F. LAWSON, C.P.A.**

MONROE B. THROWER, C.P.A.
(1918-2000)
M. BARDIN THROWER, JR., C.P.A.
(1946-2012)

Founded 1948

***Member of American Institute of
Certified Public Accountants**
****Virginia & Tennessee Society of
Certified Public Accountant**

**612 Trent Street
Norton, Virginia 24273
Phone: (276) 679-2780
Fax: (276) 679-7445**

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the Town Council
Town of Pound
Pound, VA 24279

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pound, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pound, Virginia as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, 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 17 to the financial statements, in fiscal year 2013, the Town adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reports as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

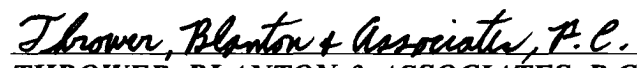
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 34 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 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014 on our consideration of the Town of Pound's internal control over financial reporting and on our test 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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.


THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

Norton, Virginia
January 15, 2014

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

& Consultants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Members of the Town Council
Town of Pound
Pound, VA 24279

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pound, 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 Pound, Virginia's basic financial statements, and have issued our report thereon dated January 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements for the year ended June 30, 2013, we considered the Town'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 Town's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Item #2013-1 Lack of Segregation of Duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Honorable Members of the Town Council
Town of Pound
Pound, VA 24279
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*(Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards)*

We noted certain matters that we reported to management of the Town of Pound, in a separate letter dated January 15, 2014.

Town of Pound's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit 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.



THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

Norton, Virginia
January 15, 2014

**TOWN OF POUND, VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2013**

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 10,322	\$ 42,542	\$ 52,864
Restricted cash	61,113	63,478	124,591
Receivable, net	26,843	58,623	85,466
Internal balances	404,695	(404,695)	-
Due from other governmental units	36,335	-	36,335
Inventories	1,687	-	1,687
Prepaid expense	-	-	-
Capital assets, non-depreciable	6,501	118,194	124,695
Capital assets, depreciable, net	<u>1,058,207</u>	<u>6,752,956</u>	<u>7,811,163</u>
Total Assets	<u>\$ 1,605,703</u>	<u>\$ 6,631,098</u>	<u>\$ 8,236,801</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 16,331	\$ 36,227	\$ 52,558
Accrued payroll and related liabilities	3,320	1,601	4,921
Accrued interest payable	5,937	8,521	14,458
Due to other funds	-	-	-
Customer security deposits	-	27,020	27,020
Compensated absences			
Due within one year	112	-	112
Due in more than one year	-	-	-
Long-term liabilities:			
Due within one year	29,492	277,875	307,367
Due in more than one year	<u>103,019</u>	<u>1,328,191</u>	<u>1,431,210</u>
Total Liabilities	<u>158,211</u>	<u>1,679,435</u>	<u>1,837,646</u>
<u>NET POSITION</u>			
Net investment in capital assets	932,197	5,265,084	6,197,281
Restricted	61,113	63,478	124,591
Unrestricted (deficit)	<u>454,182</u>	<u>(376,899)</u>	<u>77,283</u>
Total Net Position	<u>\$ 1,447,492</u>	<u>\$ 4,951,663</u>	<u>\$ 6,399,155</u>

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

EXHIBIT 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General government	\$ 353,705	\$ -	\$ -	\$ -	\$ (353,705)	\$ -	\$ (353,705)	
Public safety	370,855	-	60,058	-	(310,797)	-	(310,797)	
Public works	150,255	59,498	16,054	-	(74,703)	-	(74,703)	
Interest on long-term debt	4,613	-	-	-	(4,613)	-	(4,613)	
Total Governmental Activities	879,428	59,498	76,112	-	(743,818)	-	(743,818)	
Business-Type Activities								
Water	600,140	481,753	-	-	-	(118,387)	(118,387)	
Wastewater	662,125	608,336	-	-	-	(53,789)	(53,789)	
Total Business-Type Activities	1,262,265	1,090,089	-	-	-	(172,176)	(172,176)	
TOTAL PRIMARY GOVERNMENT	\$ 2,141,693	\$ 1,149,587	\$ 76,112	\$ -	\$ (743,818)	\$ (172,176)	\$ (915,994)	
General revenues								
Property taxes					\$ 163,515	\$ -	\$ 163,515	
Other local taxes					326,296	-	326,296	
Fines & forfeitures					24,585	-	24,585	
Unrestricted investment earnings					2	-	2	
Unrestricted intergovernmental revenue					15,709	-	15,709	
Other					15,727	2,800	18,527	
Transfers					-	-	-	
Total general revenues and transfers					545,834	2,800	548,634	
Change in net position					(197,984)	(169,376)	(367,360)	
NET POSITION- JULY 1					1,645,476	5,121,039	6,766,515	
NET POSITION- JUNE 30					\$ 1,447,492	\$ 4,951,663	\$ 6,399,155	

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

**TOWN OF POUND, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013**

EXHIBIT 3

	<u>General Fund</u>	<u>Total</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 10,322	\$ 10,322
Restricted cash	61,113	61,113
Taxes receivable	20,230	20,230
Accounts receivable	6,613	6,613
Inventory	1,687	1,687
Due from other funds	404,695	404,695
Due from other governmental units	36,335	36,335
Total Assets	<u>\$ 540,995</u>	<u>\$ 540,995</u>
<u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 16,331	\$ 16,331
Accrued payroll and related liabilities	3,320	3,320
Total Liabilities	<u>19,651</u>	<u>19,651</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred property taxes	17,089	17,089
Total Deferred Inflows of Resources	<u>17,089</u>	<u>17,089</u>
<u>FUND BALANCES</u>		
Nonspendable	406,382	406,382
Restricted	-	-
Committed	61,113	61,113
Assigned	7,480	7,480
Unassigned	29,280	29,280
Total Fund Balances	<u>504,255</u>	<u>504,255</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 540,995</u>	<u>\$ 540,995</u>
Total Fund Balances	\$ 504,255	
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	1,064,708	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	17,089	
Other liabilities are not required to be paid out of current financial resources and therefore are not reported in the governmental funds.	(6,049)	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(132,511)</u>	
Net Position of Governmental Activities	<u>\$ 1,447,492</u>	

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

TOWN OF POUND, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended
June 30, 2013

EXHIBIT 4

	<u>General Fund</u>	<u>Total</u>
REVENUES		
General property taxes	\$ 164,945	\$ 164,945
Other local taxes	326,296	326,296
Fines and forfeitures	24,585	24,585
Revenues from use of money and property	2	2
Charges for services	59,498	59,498
Miscellaneous	15,709	15,709
Intergovernmental	<u>91,839</u>	<u>91,839</u>
Total Revenues	<u>682,874</u>	<u>682,874</u>
EXPENDITURES		
Current:		
General government administration	263,537	263,537
Public safety:		
Police department	337,046	337,046
Fire department	28,232	28,232
Public works:		
Street department	106,172	106,172
Garbage department	43,726	43,726
Debt service:		
Principal retirement	42,892	42,892
Interest and fiscal charges	<u>5,226</u>	<u>5,226</u>
Total Expenditures	<u>826,831</u>	<u>826,831</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(143,957)</u>	<u>(143,957)</u>
OTHER FINANCING SOURCES (USES)		
Transfers Out	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(143,957)	(143,957)
FUND BALANCE AT JULY 1, 2012	<u>648,212</u>	<u>648,212</u>
FUND BALANCE AT JUNE 30, 2013	<u>\$ 504,255</u>	<u>\$ 504,255</u>

TOWN OF POUND, VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended
June 30, 2013

EXHIBIT 5

	<u>General Fund</u>
Net change in fund balance governmental fund	\$ (143,957)
Amounts reported for governmental activities in the statement of activities are different because:	
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(95,990)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,430)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	42,892
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and therefore are not required as expenditures in governmental funds.	<u>501</u>
Change in net position of governmental activities	<u>\$ (197,984)</u>

TOWN OF POUND, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

EXHIBIT 6

	Business-Type Activities -		
	Enterprise Funds		
	Water Fund	Wastewater Fund	Totals
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 11,745	\$ 30,797	\$ 42,542
Receivables, net	36,569	22,054	58,623
Prepaid expense	-	-	-
Due from other governmental units	-	-	-
Total Current Assets	<u>48,314</u>	<u>52,851</u>	<u>101,165</u>
Noncurrent assets:			
Restricted cash	17,841	45,637	63,478
Capital assets, non-depreciable	95,424	22,770	118,194
Capital assets, depreciable, net	4,471,314	2,281,642	6,752,956
Due from other funds	-	84,000	84,000
Total Noncurrent Assets	<u>4,584,579</u>	<u>2,434,049</u>	<u>7,018,628</u>
Total Assets	<u>\$ 4,632,893</u>	<u>\$ 2,486,900</u>	<u>\$ 7,119,793</u>
<u>LIABILITIES</u>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 32,335	\$ 3,892	\$ 36,227
Accrued payroll and related liabilities	1,068	533	1,601
Accrued interest payable	441	8,080	8,521
Customer deposits	27,020	-	27,020
Compensated absences	-	-	-
Bonds and notes payable	89,193	188,682	277,875
Total Current Liabilities	<u>150,057</u>	<u>201,187</u>	<u>351,244</u>
Noncurrent liabilities			
Due to other funds	302,849	185,846	488,695
Bonds and notes payable	778,756	549,435	1,328,191
Total Noncurrent Liabilities	<u>1,081,605</u>	<u>735,281</u>	<u>1,816,886</u>
Total Liabilities	<u>1,231,662</u>	<u>936,468</u>	<u>2,168,130</u>
<u>NET POSITION</u>			
Net investment in capital assets	3,698,789	1,566,295	5,265,084
Restricted	17,841	45,637	63,478
Unrestricted (deficit)	(315,399)	(61,500)	(376,899)
Total Net Position	<u>3,401,231</u>	<u>1,550,432</u>	<u>4,951,663</u>
Total Liabilities and Net Position	<u>\$ 4,632,893</u>	<u>\$ 2,486,900</u>	<u>\$ 7,119,793</u>

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

TOWN OF POUND, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended
June 30, 2013

EXHIBIT 7

	Business-Type Activities -		
	Enterprise Funds		
	Water Fund	Wastewater Fund	Totals
OPERATING REVENUES			
Charges for services	\$ 457,875	\$ 596,533	\$ 1,054,408
Connection/hook-up fees	13,608	2,050	15,658
Miscellaneous	10,270	9,753	20,023
Total Operating Revenues	<u>481,753</u>	<u>608,336</u>	<u>1,090,089</u>
OPERATING EXPENSES			
Salaries	128,251	34,561	162,812
Fringe benefits	43,146	13,620	56,766
Contract services	-	260,791	260,791
Water purchased	103,503	-	103,503
Insurance	17,387	13,777	31,164
Materials and supplies	85,230	3,678	88,908
Repairs and maintenance	7,023	8,296	15,319
Utilities and telephone	33,241	50,832	84,073
Other	11,982	5,414	17,396
Depreciation and amortization	156,750	244,996	401,746
Total Operating Expenses	<u>586,513</u>	<u>635,965</u>	<u>1,222,478</u>
Operating Income (Loss)	<u>(104,760)</u>	<u>(27,629)</u>	<u>(132,389)</u>
NON-OPERATING REVENUES(EXPENSES)			
Tap fees	2,800	-	2,800
Grant Income	-	-	-
Interest income	-	-	-
Interest expense	(13,627)	(26,160)	(39,787)
Transfers From Other Funds	-	-	-
Total Non-Operating Revenues (Expenses)	<u>(10,827)</u>	<u>(26,160)</u>	<u>(36,987)</u>
CHANGE IN NET POSITION	<u>(115,587)</u>	<u>(53,789)</u>	<u>(169,376)</u>
NET POSITION-JULY 1, 2012	<u>3,516,818</u>	<u>1,604,221</u>	<u>5,121,039</u>
NET POSITION-JUNE 30, 2013	<u>\$ 3,401,231</u>	<u>\$ 1,550,432</u>	<u>\$ 4,951,663</u>

TOWN OF POUND, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
Year Ended June 30, 2013

EXHIBIT 8

	Business-Type Activities -		
	Enterprise Funds		
	Water Fund	Wastewater Fund	Totals
OPERATING ACTIVITIES			
Receipts from customers	\$ 483,563	\$ 604,974	\$ 1,088,537
Payments to suppliers for goods & services	(301,721)	(351,741)	(653,462)
Payments to employees	(127,387)	(34,282)	(161,669)
Receipt of customer deposits	52	-	52
Net Cash Provided by (Used in) Operating Activities	54,507	218,951	273,458
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(65,939)	(3,498)	(69,437)
Principal paid on long-term debt	(27,518)	(178,734)	(206,252)
Bond proceeds	60,996	-	60,996
Interest on loan	(13,704)	(28,852)	(42,556)
Increase(decrease) in due to other funds	(34,940)	(54,733)	(89,673)
Capital grant proceeds	-	-	-
Tap fees collected	2,800	-	2,800
Net Cash Provided by (Used in) Capital and Related Financing Activities	(78,305)	(265,817)	(344,122)
INVESTING ACTIVITIES			
Interest received on investments	-	-	-
Net Cash Provided by Investing Activities	-	-	-
Net Increase in Cash and Cash Equivalents	(23,798)	(46,866)	(70,664)
CASH AND CASH EQUIVALENTS			
Beginning at July 1	53,384	123,300	176,684
Ending at June 30	<u>\$ 29,586</u>	<u>\$ 76,434</u>	<u>\$ 106,020</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ (104,760)	\$ (27,629)	\$ (132,389)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	156,750	244,996	401,746
Bad debts	2,279	1,779	4,058
Change in certain assets and liabilities:			
(Increase) decrease in:			
Receivables, net	1,810	(3,362)	(1,552)
Prepaid expenses	-	-	-
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(2,488)	2,888	400
Accrued payroll and related liabilities	864	279	1,143
Customer deposits	52	-	52
Net Cash Provided by Operating Activities	<u>\$ 54,507</u>	<u>\$ 218,951</u>	<u>\$ 273,458</u>

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

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Pound, Virginia is incorporated under and has all powers conferred upon towns under the Constitution of Virginia and all other laws of the Commonwealth. The Town is governed by a town council composed of five members, elected at large. The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The Town's financial statements include all the Town operations.

B. Financial Reporting Model

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB 34)*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports. The Town has implemented the requirements of GASB 34, beginning with the year ended June 30, 2004.

GASB 34 established requirements and the new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes the following components:

Management's Discussion and Analysis - GAAP recommends that financial statements be supplemented by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is comparable to analysis the private sector provides in their annual reports.

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities (i.e., reports all of the revenue and cost of providing services each year, not just those received or paid in the current year or soon thereafter). Government-wide financial statements do not provide information by fund or account group, but distinguish between the Town's governmental activities, business-type activities and activities of its discretely presented component units on the Statement of Net Position and Statement of Activities. Significantly, the Town's Statement of Net Position includes both noncurrent assets and noncurrent liabilities of the Town. Depreciation expense on the Town's capital assets, including infrastructure, is reflected in the government-wide Statement of Activities.

June 30, 2013

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. **Financial Reporting Model (Continued)**

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. The Town reports all capital assets, including infrastructure, in the government-wide Statement of Net Position and reports depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The Net Position of the Town are reported in three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by specific 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. All taxes, and other items not properly included among program revenues, are reported instead as general revenues.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) which are not 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 and operating and capital grants and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity.

Fund Statements – In addition to the government-wide financial statements, the Town reports fund financial statements which use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the Town’s Governmental fund types (i.e., General, and Permanent) are similar to that previously presented in the Town’s financial statements. See note 1(c) for further discussion.

C. **Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements, as well as the proprietary fund financial statements, report all their activities using the economic resources measurement focus and the accrual basis of accounting. 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.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In the first type, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the second type, monies are virtually unrestricted as to time of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Governmental fund financial statements are reported using the current financial resource 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Reporting Entity considers revenues to be available if they are collected within 45 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.

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

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

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

Real and personal property taxes are recorded as revenues and receivables when levied, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as deferred revenue. Sales and utility taxes, which are collected by the Commonwealth or utility companies by year-end and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the Town.

Licenses and permits, fines, charges for services and miscellaneous revenues, except interest on temporary investments, are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available. Unbilled accounts receivable are recorded in the Enterprise Funds when earned.

The governmental funds financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total Net Position (deficit) for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the governmental funds balance sheet. The assets and liability elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds statement of revenues, expenditures and changes in fund balances, and the change in Net Position for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds statement of revenues, expenditures and changes in fund balances.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The revenue and expense elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

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

The focus of the Reporting Model is on the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

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

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town reports the following proprietary fund types, all of which are considered major funds:

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

The *Wastewater Fund* accounts for the operations of the Town's wastewater collection system.

GASB Statement No. 20 requires proprietary activities to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB No. 20, management has elected not to apply FASB pronouncement issues after November 30, 1989.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. **Budgets and Budgetary Accounting**

As set forth in the Town Charter, the Town Council adopts an annual budget for the General Fund and Enterprise Funds. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Enterprise Fund is adopted under a basis consistent with GAAP, except that depreciation is not funded. All annual appropriations lapse at fiscal year-end.

E. **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Open encumbrances at fiscal yearend are included in restricted, committed, or assigned fund balance, as appropriate.

F. **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$2,500 or more and an estimated useful life of at least two years. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings/building improvements	40
Utility transmission lines and mains	20-40
Furniture and equipment	10
Vehicles	5-7

G. **Cash Equivalents**

For the purposes of the combined statement of cash flows, the water fund and the sewer fund consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

H. **Total Columns on Combined Statements - Overview**

The total columns on the Combined Statements - Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Defined Benefit Pension Plans

Defined benefit pension plan contributions are actuarially determined and consist of current service costs and amortization of past service costs over a 20-year period for the Virginia Retirement System (VRS) Plans. The Town's policy is to fund pension cost as it accrues.

J. Fund Balances – Government Funds

The Town elected to implement GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental fund report the following classification of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2013, by The Town are nonspendable in form. The Town has not reported any amounts that are legally or contractually required to be maintained intact.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Town Council, The Town's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by The Town Council.
- Assigned – includes amounts that The Town intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under The Town Council's adopted policy, amounts may be assigned by the Treasurer under the authorization of the Mayor's Office.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General fund. The Town reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned.

Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications.

As of June 30, 2013, fund balances are composed of the following:

	<u>General Fund</u>
Nonspendable:	
Gas inventory	\$ 1,687
Interfund Receivable	404,695
Restricted:	
Capital project funds	\$ -

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balances – Government Funds (Continued)

	<u>General Fund</u>
Committed:	
Fire truck funds	\$ 61,113
Assigned:	
Park & recreation funds	2,982
Heritage day funds	932
Police funds	3,156
BBQ event funds	410
Unassigned:	<u>29,280</u>
Total Fund Balance	<u>\$ 504,255</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless The Town Council has provided otherwise in its commitment or assignment actions.

2. CASH AND CASH EQUIVALENTS

Deposits

All cash of the Town and its component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. seq.* of the *Code of Virginia*, or covered by federal depository insurance.

Investments

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including regulations, the Town permits investments in U. S. Treasury Securities, U. S. Agency Securities, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker's acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

Credit Risk:

As required by state statute, the Town requires that commercial paper have a short-term debt rating of no less than "A-1" (or equivalent) from a nationally recognized statistical rating organization.

Concentration of Credit Risk:

Deposits and investments held by any single issuer that exceeded 5% are as follows:

B B & T Bank	100%
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TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

2. CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the Town's investments are held in the Treasurer's office in the Town's name.

The above items are reflected in the financial statements as follows:

	<u>Primary Government</u>
Deposits and investments:	
Cash on hand	\$ 200
Deposits	<u>177,255</u>
	<u>\$ 177,455</u>
Statement of Net Position:	
Cash and cash equivalents	\$ 52,864
Restricted cash and cash equivalents	<u>124,591</u>
	<u>\$ 177,455</u>

Restricted cash and cash equivalents consist primarily of demand deposit accounts.

3. 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 \$54,663 at June 30, 2013, and is composed of the following:

General Operating Fund:	
Allowance for uncollectible property taxes	\$ 45,156
Water Fund:	
Allowance for uncollectible water rents	5,994
Sewer Fund:	
Allowance for uncollectible sewer rents	<u>3,513</u>
TOTAL	<u>\$ 54,663</u>

4. PROPERTY TAXES RECEIVABLE

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Tax levy information is received from Wise County, and tax bills are mailed in November. Taxes are due and payable on or before December 5 of the current year. All unpaid taxes become delinquent December 6 of the current year. The Town bills and collects its own property taxes and revenues are recognized when collected.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

5. DUE FROM OTHER GOVERNMENTAL UNITS

	<u>General Fund</u>
Wise County:	
Coal haul road tax	\$ 15,052
Court fines	1,423
Local sales tax	12,227
School Resource Officer	<u>-</u>
Total Due from Wise County	<u>\$ 28,702</u>
State:	
Communication taxes	\$ 5,311
Virginia fire grant	800
Virginia mobile home tax	1,522
VDH assistance grants	<u>-</u>
Total Due from State	<u>\$ 7,633</u>
Total Due from Other Governmental Units	<u>\$ 36,335</u>

6. INTERFUND OBLIGATIONS

The following is a summary of amounts due from and due to other funds at June 30, 2013:

<u>Entity Wide:</u>	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Fund	\$218,849	\$ -
Sewer Fund	<u>185,846</u>	<u>-</u>
Total General Fund	<u>404,695</u>	<u>-</u>
Water Fund:		
General Fund	-	218,849
Sewer Fund	<u>-</u>	<u>-</u>
Total Water Fund	<u>-</u>	<u>218,849</u>
Sewer Fund:		
General Fund	-	185,846
Water Fund	<u>-</u>	<u>-</u>
Total Sewer Fund	<u>-</u>	<u>185,846</u>
TOTALS	<u>\$404,695</u>	<u>\$404,695</u>
Enterprise Funds:		
Water Fund:		
Sewer Fund	\$ -	\$ 84,000
Total Water Fund	<u>-</u>	<u>84,000</u>
Sewer Fund:		
Water Fund	<u>84,000</u>	<u>-</u>
Total Sewer Fund	<u>84,000</u>	<u>-</u>
TOTALS	<u>\$ 84,000</u>	<u>\$ 84,000</u>

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

7. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 6,501	\$ -	\$ -	\$ 6,501
Construction in progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets, not Depreciated	\$ 6,501	\$ -	\$ -	\$ 6,501
Capital assets, depreciated				
Buildings and improvements	\$ 241,227	\$ -	\$ -	\$ 241,227
Infrastructure	\$ 1,011,850	\$ -	\$ -	\$ 1,011,850
Machinery and equipment	\$ 682,394	\$ 20,135	\$ -	\$ 702,529
Total Capital Assets, Depreciated	\$ 1,935,471	\$ 20,135	\$ -	\$ 1,955,606
Less accumulated depreciation for				
Buildings and improvements	\$ 111,614	\$ 6,267	\$ -	\$ 117,881
Infrastructure	\$ 82,363	\$ 85,594	\$ -	\$ 167,957
Machinery and equipment	\$ 587,297	\$ 24,264	\$ -	\$ 611,561
Total accumulated depreciation	\$ 781,274	\$ 116,125	\$ -	\$ 897,399
Total Capital Assets, depreciated, net	\$ 1,154,197	\$ (95,990)	\$ -	\$ 1,058,207
Governmental activities capital assets, net	\$ 1,160,698	\$ (95,990)	\$ -	\$ 1,064,708
Business Type Activities				
Capital assets, not depreciated				
Land	\$ 55,752	\$ -	\$ -	\$ 55,752
Construction in progress	\$ -	\$ 62,442	\$ -	\$ 62,442
Total Capital Assets, not Depreciated	\$ 55,752	\$ 62,442	\$ -	\$ 118,194
Capital assets, depreciated				
Buildings and water/sewer system	\$ 14,719,293	\$ -	\$ -	\$ 14,719,293
Machinery and equipment	\$ 297,560	\$ 6,995	\$ -	\$ 304,555
Total Capital Assets, Depreciated	\$ 15,016,853	\$ 6,995	\$ -	\$ 15,023,848
Less accumulated depreciation for				
Buildings and water/sewer system	\$ 7,603,328	\$ 394,707	\$ -	\$ 7,998,035
Machinery and equipment	\$ 265,818	\$ 7,039	\$ -	\$ 272,857
Total accumulated depreciation	\$ 7,869,146	\$ 401,746	\$ -	\$ 8,270,892
Total Capital Assets, depreciated, net	\$ 7,147,707	\$ (394,751)	\$ -	\$ 6,752,956
Business-Type Activities Capital Assets, Net	\$ 7,203,459	\$ (332,309)	\$ -	\$ 6,871,150

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

8. CAPITAL ASSETS

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

Governmental Activities:

General government	\$ 93,379
Public safety	22,390
Public works	<u>357</u>

Total Depreciation Expense – Governmental Activities \$ 116,126

Business-Type Activities:

Water and sewer	\$ <u>401,746</u>
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Total Depreciation Expense – Business-Type Activities \$ 401,746

9. LONG-TERM DEBT

Annual requirements to amortize long-term debt and related interest for the enterprise funds are as follows:

Years Ending June 30,	Water Fund		Wastewater Fund		Total Enterprise Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	89,193	13,513	188,682	18,904	277,875	32,417
2015	28,436	12,104	194,541	13,045	222,977	25,149
2016	28,655	11,886	200,670	7,072	229,325	18,958
2017	28,948	11,592	154,224	2,279	183,172	13,871
2018	29,223	11,318	-	-	29,223	11,318
2019-2023	150,665	52,037	-	-	150,665	52,037
2024-2028	159,682	43,023	-	-	159,682	43,023
2029-2033	160,869	31,667	-	-	160,869	31,667
2034-2038	132,174	17,462	-	-	132,174	17,462
2039-2042	<u>60,104</u>	<u>2,310</u>	<u>-</u>	<u>-</u>	<u>60,104</u>	<u>2,310</u>
TOTALS	<u>\$ 867,949</u>	<u>\$ 206,912</u>	<u>\$ 738,117</u>	<u>\$ 41,300</u>	<u>\$1,606,066</u>	<u>\$248,212</u>

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

9. LONG-TERM DEBT (Continued)

Annual requirements to amortize long-term debt and related interest for the governmental fund is as follows:

Years Ending June 30,	General Obligation Bond		TOTAL	
	Principal	Interest	Principal	Interest
2014	15,137	1,628	15,137	1,628
2015	15,914	860	15,914	860
2016	<u>520</u>	<u>121</u>	<u>520</u>	<u>121</u>
TOTALS	<u>\$ 31,571</u>	<u>\$ 2,609</u>	<u>\$ 31,571</u>	<u>\$ 2,609</u>

Changes in Long-Term Debt:

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

	Total General Fund
Bonds/loans payable at 6/30/12	\$ 56,395
Additions	-
Retirements	<u>(24,824)</u>
Bonds/loans payable at 6/30/13	<u>\$ 31,571</u>

	Water General Obligation Bond	Water Revenue Bond	Water General Obligation Bond	Water General Obligation Bond	Water Interim Financing
Principal due at 6/30/12	\$ 280,266	\$ 77,215	\$ 321,514	\$ 155,476	\$ -
Additions	-	-	-	-	60,996
Retirements	<u>(4,952)</u>	<u>(4,064)</u>	<u>(11,281)</u>	<u>(7,221)</u>	<u>(-)</u>
Principal due at 6/30/13	<u>\$ 275,314</u>	<u>\$ 73,151</u>	<u>\$ 310,233</u>	<u>\$ 148,255</u>	<u>\$ 60,996</u>

	Sewer Improvement Bond	Sewer General Obligation Bond	Sewer Revenue Bond	Total Enterprise Fund
Principal due at 6/30/12	\$ 160,284	\$ 348,605	\$ 407,962	\$ 1,751,322
Additions	-	-	-	60,996
Retirements	<u>(36,294)</u>	<u>(65,632)</u>	<u>(76,808)</u>	<u>(206,252)</u>
Principal due at 6/30/13	<u>\$ 123,990</u>	<u>\$ 282,973</u>	<u>\$ 331,154</u>	<u>\$ 1,606,066</u>

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

9. LONG-TERM DEBT (Continued)

Details of Long-Term Indebtedness:

General Obligation Bonds and Note Payable:

Amount

\$195,000 General Obligation Bond Series of 1998 payable to First Virginia Bank in monthly installments of \$1,397.04 at a rate of 6% per year subject to adjustment not greater than 6% per year. Payments beginning on July 28, 1998, with the final payment due June 28, 2015.

\$ 31,571

TOTAL GENERAL OBLIGATION BONDS AND NOTES

\$ 31,571

Enterprise Funds:

\$740,000, 5%, Sewer System Bond dated April 5, 1976, payable to General Motors Acceptance Corporation in monthly installments of \$3,626 (including interest) due on the 5th of each month, commencing on April 5, 1978, and continuing for a period of 38 years.

\$ 123,990

\$1,110,000, 3.00% General Obligation Sewer Bond, series of 1998 payable to the Virginia Water Facilities Revolving Fund in semi-annual installments of \$37,800 on each February 1st and August 1st beginning February 1, 1998, with the final installment due February 1, 2017.

282,973

\$1,364,160, 3.00% Sewer System Revenue Bond, series of 1998 payable to the Virginia Water Facilities Revolving Fund in semi-annual installments of \$44,237 on each February 1st and August 1st beginning February 1, 1998, with the final installment due February 1, 2017.

331,154

\$321,800, 4.50% General Obligation Water System Bond, series of 2000 payable to USDA Rural Development in monthly installments of \$1,461 (including interest), payments begin December 20, 2001, for 468 payments, with the final payment due November 20, 2040.

275,314

\$125,000, 0.00% Water System Revenue Bond, series of 2001 payable to the Virginia Water Supply Revolving Fund in semi-annual payments of \$2,083 beginning October 1, 2001, with the final installment due on April 1, 2031.

73,151

\$348,691, 0.00% General Obligation Water System Bond, series of 2012A payable to the Virginia Water Supply Revolving Fund in semi-annual payments of \$5,812 beginning March 1, 2012, with the final installment due on September 1, 2040.

310,233

\$216,592, 0.00% General Obligation Water System Bond, series of 2012B payable to the Virginia Water Supply Revolving Fund in semi-annual payments of \$3,610 beginning February 1, 2012, with the final installment due on August 1, 2040.

148,255

\$100,000, 3.75% Variable Interest Line of Credit, payable to BB&T in monthly installments of interest only. Interest payments begin May 1, 2013, for 12 months, with the final payment due April 1, 2014. The line of credit was created September 20, 2007 and is renewable annually. The last renewal modification was March 26, 2013.

60,996

TOTAL ENTERPRISE FUND LONG-TERM DEBT

\$1,606,066

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

10. CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES (Continued)

In accordance with GASB Statement 16 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences", the Town of Pound has accrued the liability arising from outstanding claims and judgments and compensated absences. At June 30, 2013, the Town of Pound had no outstanding general leave, earned but unpaid in the General Operating Fund or in the Enterprise Funds.

Permanent, full-time Town of Pound employees earn general leave according to the following:

Employees earn two weeks vacation and five sick days each year after they have completed a full year of service. Paid time off is accrued July 1st of each year, and must be used by June 30th each year or the hours are lost. Any unused vacation may be paid upon approval by the Town manager.

Upon termination of employment, employees are paid full pay for accumulated general leave. Temporary or part-time employees do not qualify for general leave.

The following is a summary of compensated absences transactions for the year ended June 30, 2013:

	Balance July 1, 2012	Additions/ Proceeds	Payments/ Reductions	Balance June 30, 2013
<u>General Operating Fund</u>				
Accrued Compensated Absences	\$ -	\$ 10,889	\$ (10,777)	\$ 112
<u>Enterprise Funds</u>				
Accrued Compensated Absences	\$ 458	\$ 3,766	\$ (4,224)	\$ -

11. LEASE COMMITMENTS

The Town of Pound has a Capital Lease with Public Capital Corporation for a fire pumper truck to be utilized by the fire department. The lease requires annual payments of \$20,754.77 with final payment due August 1, 2018. Total principal and interest payments are \$200,150 and \$111,117, respectively. The outstanding principal balance at June 30, 2013 was \$100,939.

A summary of future minimum lease payments under the capital lease as of June 30, 2013, is as follows:

June 30, 2014	20,755
June 30, 2015	20,755
June 30, 2016	20,755
June 30, 2017	20,755
June 30, 2018	20,755
June 30, 2019	20,700
Total Minimum Lease Payments	124,475
Less Amount Representing Interest	(23,535)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$100,940</u>

June 30, 2013

12. DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and 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 are 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 5 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 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for member electing the Survivor Option, PLOP or Advanced 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 report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publication/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

12. DEFINED BENEFIT PENSION PLAN (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% 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 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 of Pound, Virginia 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 2012 was 9.48% of annual covered payroll.

C. Annual Pension Cost

For the fiscal year 2013, The Town of Pound's annual pension cost of \$33,742 was equal to the Town's required and actual contributions.

Three Year Trend Information for the Town of Pound, Virginia

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>of APC Contributed</u>	<u>Percentage Net Pension Obligation</u>
June 30, 2011	44,484	100.0%	-
June 30, 2012	44,218	100.0%	-
June 30, 2013	33,742	100.0%	-

The FY 2013 required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.0% (b) projected salary increases of 3.75% to 5.60% per year for general government employees and 3.5% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) 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 81.47% funded. The actuarial accrued liability for benefits was \$1,159,077, resulting in an unfunded actuarial accrued liability (UAAL) of \$214,736. The covered payroll (annual payroll of active employees covered by the plan) was \$388,107, and ratio of the UAAL to the covered payroll was 55.33%.

TOWN OF POUND, VIRGINIA**NOTES TO FINANCIAL STATEMENTS**

June 30, 2013

12. DEFINED BENEFIT PENSION PLAN (Continued)**D. Funded Status and Funding Progress (Continued)**

The schedule of funding progress, presented as Required Supplementary Information following these notes, 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.

REQUIRED SUPPLEMENTARY INFORMATION**Schedule of Funding Progress for Town of Pound, Virginia**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2010	837,171	860,669	23,498	97.27%	565,727	4.15%
June 30, 2011	900,901	1,063,522	162,621	84.71%	372,287	43.68%
June 30, 2012	944,341	1,159,077	214,736	81.47%	388,107	55.33%

13. COMPLIANCE WITH BOND AGREEMENTS

According to Article V, Section 5.9 of the 1976 Sewer Revenue Bond Agreement, the Town Treasurer shall, on the first day of each month, transfer \$360 from the Revenue Fund to the Reserve Fund until there has been accumulated and maintained therein \$43,157 after which no further deposits shall be required except to eliminate any deficiency in the Reserve Fund. At June 30, 2013, the Town was in compliance with \$45,637 in the Debt Reserve Account.

Also, on the first day of each month, the Treasurer of the Town is supposed to transfer from the Revenue Fund to the Debt Service Fund an amount equal to the installment of principal and interest coming due on the bonds that month. At June 30, 2013, the Town of Pound had \$0 in the Debt Service account.

14. DEFERRED REVENUE

Deferred 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. Deferred revenue totaling \$17,089 is comprised of the following:

Deferred Property Tax Revenue

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$17,089 at June 30, 2013.

15. DEFICIT UNRESTRICTED NET POSITION

The Water and Sewer Enterprise Funds have deficit unrestricted net position of \$376,899 at June 30, 2013. However, after considering the net investment in capital assets, the Water and Sewer Enterprise Funds have a positive net position of \$4,951,663.

TOWN OF POUND, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

16. SURETY BONDS

The Town of Pound has employee dishonesty coverage with Virginia Municipal Liability Pool covering the following Town positions at the stated amount:

<u>Position</u>	<u>Amount</u>
Mayor	\$ 100,000
Treasurer/Clerk	100,000
Clerk #1	100,000

The policy is for a one year term with coverage extending from July 1, 2012 until July 1, 2013.

17. CHANGE IN ACCOUNTING POLICY

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in the statement of financial position. This change was incorporated in the Town's financial statements; however, there was no effect on beginning net position.

The Town has decided to early implement Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" which is effective for periods beginning after December 15, 2012. A prior period adjustment was made to account for the effects of this new standard.

TOWN OF POUND, VIRGINIA**SCHEDULE 1**
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL -
GENERAL FUND (NON-GAAP) BUDGETARY BASIS
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 189,750	\$ 189,750	\$ 164,945	\$ (24,805)
Other local taxes	421,300	421,300	326,296	(95,004)
Fines and forfeitures	35,000	35,000	24,585	(10,415)
Revenues from use of money and property	25	25	2	(23)
Charges for services	65,000	65,000	59,498	(5,502)
Miscellaneous	17,400	17,400	15,709	(1,691)
Intergovernmental	65,488	65,488	91,839	26,351
Total Revenues	793,963	793,963	682,874	(111,089)
EXPENDITURES				
General government administration	278,563	278,563	263,537	15,026
Public safety - police department	309,150	309,150	337,046	(27,896)
Public safety - fire department	16,500	16,500	28,232	(11,732)
Public works - street department	92,150	92,150	106,172	(14,022)
Public works - garbage department	43,500	43,500	43,726	(226)
Debt service				
Principal retirement	54,100	54,100	42,892	11,208
Interest and fiscal charges	-	-	5,226	(5,226)
Total Expenditures	793,963	793,963	826,831	(32,868)
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	-	-
Total Other Sources of Financial Resources	-	-	-	-
Net Increase (Decrease) in Fund Balances	\$ -	\$ -	\$ (143,957)	\$ (143,957)