



TOWN OF GLASGOW, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

TOWN OF GLASGOW, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

COUNCIL

Ruby Ogden Clark, Mayor

Michael Turner

Andrea Bradley

Roger Funkhouser

James "Sonny" Williams

Jeremy Kilgore

OFFICIALS

William C. Rolfe Town Manager

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

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**TOWN OF GLASGOW, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014 (CONTINUED)**

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF GLASGOW, 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 the Town of Glasgow, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Glasgow, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedule of pension funding progress on pages 39 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Other Information

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

The 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 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 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2015, on our consideration of the Town of Glasgow, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Glasgow, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
April 27, 2015

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 419,233	\$ 266,820	\$ 686,053
Receivables (net of allowance for uncollectibles):			
Taxes receivable	59,056	-	59,056
Accounts receivable	6,096	49,315	55,411
Internal balances	210,631	(210,631)	-
Due from other governmental units	44,097	-	44,097
Prepaid items	5,387	-	5,387
Total current assets	<u>\$ 744,500</u>	<u>\$ 105,504</u>	<u>\$ 850,004</u>
Capital assets:			
Nondepreciable:			
Land	\$ 1,303,410	\$ 1,500	\$ 1,304,910
Construction in progress	-	820,007	820,007
Depreciable (net of accumulated depreciation):			
Buildings and improvements	95,327	-	95,327
Machinery and equipment	55,215	-	55,215
Infrastructure	33,577	1,471,683	1,505,260
Total capital assets, net	<u>\$ 1,487,529</u>	<u>\$ 2,293,190</u>	<u>\$ 3,780,719</u>
Total assets	<u>\$ 2,232,029</u>	<u>\$ 2,398,694</u>	<u>\$ 4,630,723</u>
LIABILITIES			
Accounts payable	\$ 18,446	\$ 415,167	\$ 433,613
Retainage payable	-	20,755	20,755
Accrued payroll	4,148	2,908	7,056
Customers' deposits	1,487	-	1,487
Accrued interest payable	-	810	810
Unearned utility charges	-	23,704	23,704
Long-term liabilities:			
Due in more than one year	3,182	248,223	251,405
Total liabilities	<u>\$ 27,263</u>	<u>\$ 711,567</u>	<u>\$ 738,830</u>
NET POSITION			
Net investment in capital assets	\$ 1,487,529	\$ 2,051,066	\$ 3,538,595
Unrestricted	717,237	(363,939)	353,298
Total net position	<u>\$ 2,204,766</u>	<u>\$ 1,687,127</u>	<u>\$ 3,891,893</u>

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

Town of Glasgow, Virginia

Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government administration	\$ 246,738	\$ -	\$ -	\$ -
Public safety	115,611	7,617	42,240	-
Public works	142,476	-	2,089	-
Health and welfare	2,370	-	-	-
Parks, recreation, and cultural	5,646	2,139	-	-
Total governmental activities	<u>\$ 512,841</u>	<u>\$ 9,756</u>	<u>\$ 44,329</u>	<u>\$ -</u>
Business-Type Activities:				
Water	\$ 160,817	\$ 135,641	\$ -	\$ 42,728
Sewer	275,230	208,349	-	-
Total business-type activities	<u>\$ 436,047</u>	<u>\$ 343,990</u>	<u>\$ -</u>	<u>\$ 42,728</u>
Total primary government	<u>\$ 948,888</u>	<u>\$ 353,746</u>	<u>\$ 44,329</u>	<u>\$ 42,728</u>

General revenues:

General property taxes

Other local taxes:

Local sales and use tax

Consumers' utility tax

Business license tax

Motor vehicle license tax

Meals tax

Unrestricted revenues from use of money and property

Miscellaneous

Grants and contributions not restricted to specific programs

Total general revenues

Change in net position

Net position - beginning

Net position - ending

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (246,738)	\$ -	\$ (246,738)
(65,754)	-	(65,754)
(140,387)	-	(140,387)
(2,370)	-	(2,370)
(3,507)	-	(3,507)
<u>\$ (458,756)</u>	<u>\$ -</u>	<u>\$ (458,756)</u>
\$ -	\$ 17,552	\$ 17,552
-	(66,881)	(66,881)
<u>\$ -</u>	<u>\$ (49,329)</u>	<u>\$ (49,329)</u>
<u>\$ (458,756)</u>	<u>\$ (49,329)</u>	<u>\$ (508,085)</u>
\$ 223,413	\$ -	\$ 223,413
68,082	-	68,082
41,787	-	41,787
12,586	-	12,586
16,728	-	16,728
20,299	-	20,299
1,766	-	1,766
37,886	9,403	47,289
50,769	-	50,769
<u>\$ 473,316</u>	<u>\$ 9,403</u>	<u>\$ 482,719</u>
\$ 14,560	\$ (39,926)	\$ (25,366)
2,190,206	1,727,053	3,917,259
<u>\$ 2,204,766</u>	<u>\$ 1,687,127</u>	<u>\$ 3,891,893</u>

FUND FINANCIAL STATEMENTS

Balance Sheet
Governmental Funds
June 30, 2014

	General	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 381,943	\$ 37,290	\$ 419,233
Receivables (net of allowance for uncollectibles):			
Taxes receivable	59,056	-	59,056
Accounts receivable	6,096	-	6,096
Due from other funds	232,518	17,377	249,895
Due from other governmental units	44,097	-	44,097
Prepaid items	5,387	-	5,387
Total assets	<u>\$ 729,097</u>	<u>\$ 54,667</u>	<u>\$ 783,764</u>
LIABILITIES			
Accounts payable	\$ 18,446	\$ -	\$ 18,446
Accrued payroll	4,148	-	4,148
Due to other funds	39,264	-	39,264
Customers' deposits	1,487	-	1,487
Total liabilities	<u>\$ 63,345</u>	<u>\$ -</u>	<u>\$ 63,345</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 58,842	\$ -	\$ 58,842
Total deferred inflows of resources	<u>\$ 58,842</u>	<u>\$ -</u>	<u>\$ 58,842</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	\$ 5,387	\$ -	\$ 5,387
Assigned:			
Capital projects funds	-	54,667	54,667
Unassigned	601,523	-	601,523
Total fund balances	<u>\$ 606,910</u>	<u>\$ 54,667</u>	<u>\$ 661,577</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 729,097</u>	<u>\$ 54,667</u>	<u>\$ 783,764</u>

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

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

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 661,577
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,487,529
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenues in the funds. This amount represents unavailable revenue.	58,842
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,182)</u>
Net position of governmental activities	<u>\$ 2,204,766</u>

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

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES			
General property taxes	\$ 196,241	\$ -	\$ 196,241
Other local taxes	159,482	-	159,482
Fines and forfeitures	7,617	-	7,617
Revenue from the use of money and property	1,766	-	1,766
Charges for services	2,139	-	2,139
Miscellaneous	37,886	-	37,886
Recovered costs	212	-	212
Intergovernmental revenues:			
Commonwealth	95,098	-	95,098
Total revenues	<u>\$ 500,441</u>	<u>\$ -</u>	<u>\$ 500,441</u>
EXPENDITURES			
General government administration	\$ 222,307	\$ -	\$ 222,307
Public safety	109,057	-	109,057
Public works	124,322	-	124,322
Health and welfare	2,370	-	2,370
Parks, recreation, and cultural	5,646	-	5,646
Nondepartmental	18,189	-	18,189
Capital projects	18,038	-	18,038
Total expenditures	<u>\$ 499,929</u>	<u>\$ -</u>	<u>\$ 499,929</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 512</u>	<u>\$ -</u>	<u>\$ 512</u>
Net change in fund balances	\$ 512	\$ -	\$ 512
Fund balances - beginning	606,398	54,667	661,065
Fund balances - ending	<u><u>\$ 606,910</u></u>	<u><u>\$ 54,667</u></u>	<u><u>\$ 661,577</u></u>

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

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

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

Net change in fund balances - total governmental funds	\$	512
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.		(21,452)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents unavailable revenue.		27,172
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.		<u>8,328</u>
Change in net position of governmental activities	\$	<u><u>14,560</u></u>

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

Statement of Net Position
 Proprietary Funds
 June 30, 2014

	Enterprise Fund	Enterprise Fund	
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 266,820	\$ 266,820
Accounts receivable	31,785	17,530	49,315
Due from other funds	188,922	-	188,922
Total current assets	<u>\$ 220,707</u>	<u>\$ 284,350</u>	<u>\$ 505,057</u>
Noncurrent assets:			
Capital assets:			
Land	\$ -	\$ 1,500	\$ 1,500
Infrastructure (net of accumulated depreciation)	75,849	1,395,834	1,471,683
Construction in progress	771,555	48,452	820,007
Total capital assets	<u>\$ 847,404</u>	<u>\$ 1,445,786</u>	<u>\$ 2,293,190</u>
Total assets	<u>\$ 1,068,111</u>	<u>\$ 1,730,136</u>	<u>\$ 2,798,247</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 401,535	\$ 13,632	\$ 415,167
Retainage payable	20,755	-	20,755
Accrued payroll	-	2,908	2,908
Accrued interest payable	810	-	810
Due to other funds	-	399,553	399,553
Unearned utility charges	9,987	13,717	23,704
Total current liabilities	<u>\$ 433,087</u>	<u>\$ 429,810</u>	<u>\$ 862,897</u>
Noncurrent liabilities:			
Notes payable - net of current portion	\$ 242,124	\$ -	\$ 242,124
Compensated absences	-	6,099	6,099
Total noncurrent liabilities	<u>\$ 242,124</u>	<u>\$ 6,099</u>	<u>\$ 248,223</u>
Total liabilities	<u>\$ 675,211</u>	<u>\$ 435,909</u>	<u>\$ 1,111,120</u>
NET POSITION			
Net investment in capital assets	\$ 605,280	\$ 1,445,786	\$ 2,051,066
Unrestricted	(212,380)	(151,559)	(363,939)
Total net position	<u>\$ 392,900</u>	<u>\$ 1,294,227</u>	<u>\$ 1,687,127</u>

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

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

	Enterprise Fund	Enterprise Fund	
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 135,641	\$ -	\$ 135,641
Sewer revenues	-	208,349	208,349
Other revenues	9,380	23	9,403
Total operating revenues	<u>\$ 145,021</u>	<u>\$ 208,372</u>	<u>\$ 353,393</u>
OPERATING EXPENSES			
Personal services	\$ 35,946	\$ 74,577	\$ 110,523
Fringe benefits	4,001	8,303	12,304
Other charges	113,857	118,538	232,395
Depreciation	7,013	73,812	80,825
Total operating expenses	<u>\$ 160,817</u>	<u>\$ 275,230</u>	<u>\$ 436,047</u>
Operating income (loss)	<u>\$ (15,796)</u>	<u>\$ (66,858)</u>	<u>\$ (82,654)</u>
NONOPERATING REVENUES (EXPENSES)			
Capital contributions and construction grants	<u>\$ 42,728</u>	<u>\$ -</u>	<u>\$ 42,728</u>
Change in net position	<u>\$ 26,932</u>	<u>\$ (66,858)</u>	<u>\$ (39,926)</u>
Net position - beginning	<u>\$ 365,968</u>	<u>\$ 1,361,085</u>	<u>\$ 1,727,053</u>
Net position - ending	<u><u>\$ 392,900</u></u>	<u><u>\$ 1,294,227</u></u>	<u><u>\$ 1,687,127</u></u>

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

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

	Enterprise Fund	Enterprise Fund	
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 127,619	\$ 254,275	\$ 381,894
Payments to suppliers	(158,108)	(124,648)	(282,756)
Payments to employees	(39,947)	(81,753)	(121,700)
Other receipts (payments)	(12,209)	23	(12,186)
Net cash provided by (used for) operating activities	<u>\$ (82,645)</u>	<u>\$ 47,897</u>	<u>\$ (34,748)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Sale (purchase) of assets	\$ (245,886)	\$ 2,820	\$ (243,066)
Proceeds from indebtedness	242,124	-	242,124
Interest payments	810	-	810
Water improvements grant	<u>85,597</u>	<u>-</u>	<u>85,597</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ 82,645</u>	<u>\$ 2,820</u>	<u>\$ 85,465</u>
Net increase (decrease) in cash and cash equivalents	\$ -	\$ 50,717	\$ 50,717
Cash and cash equivalents - beginning	\$ -	\$ 216,103	\$ 216,103
Cash and cash equivalents - ending	<u>\$ -</u>	<u>\$ 266,820</u>	<u>\$ 266,820</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ (15,796)</u>	<u>\$ (66,858)</u>	<u>\$ (82,654)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 7,013	\$ 73,812	\$ 80,825
(Increase) decrease in accounts receivable	(12,961)	139	(12,822)
(Increase) decrease in due from other funds	(21,589)	-	(21,589)
(Increase) decrease in prepaid expenses	-	514	514
Increase (decrease) in accounts payable	(44,251)	(6,624)	(50,875)
Increase (decrease) in accrued payroll	-	356	356
Increase (decrease) in customer deposits	(830)	-	(830)
Increase (decrease) in unearned utility charges	5,769	6,465	12,234
Increase (decrease) in compensated absences	-	771	771
Increase (decrease) in due to other funds	-	39,322	39,322
Total adjustments	<u>\$ (66,849)</u>	<u>\$ 114,755</u>	<u>\$ 47,906</u>
Net cash provided by (used for) operating activities	<u>\$ (82,645)</u>	<u>\$ 47,897</u>	<u>\$ (34,748)</u>

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

TOWN OF GLASGOW, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Town of Glasgow, Virginia (government) is a municipal corporation governed by an elected six-member Town Council. The accompanying financial statements present the primary government of the Town.

B. Government-wide and fund financial statements

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

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

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

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

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.

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

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

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

The Town reports the following major governmental funds:

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

The Town reports the following non-major governmental fund:

The *flood fund* accounts for capital projects activity of the Town. It is reported as such.

The Town reports the following major proprietary 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.

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

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

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

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

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

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

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

1. *Cash and Cash Equivalents*

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.

2. *Investments*

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.

3. *Receivables and Payables*

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**D. Assets, liabilities, deferred outflows/inflows of resources and net position or fund balance
(continued)****4. Property Taxes**

The Town collects real property and personal property taxes annually. Real property and personal property is assessed by the County of Rockbridge Commissioner of Revenue annually on property owned on January 1st. Town Council adopts tax rates each year as a part of the budget process. Real and personal property taxes are levied as of January 1st and are due on December 5th of each year. Penalties accrue on the unpaid balances at this date. Interest is charged on unpaid balances beginning December 6th. Unpaid real property taxes constitute a lien against the property. The Town bills and collects its own property taxes.

5. Use of Estimates

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (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.

The Town has elected to record infrastructure costs beginning with costs incurred in 1980.

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>
Buildings	40
Buildings improvements	40
Machinery and equipment	3-10
Infrastructure	30

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

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

6. *Capital Assets (continued)*

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings or equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

7. *Prepaid Items*

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

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 nonvested 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 or business-type activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

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

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

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

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

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

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

12. Net Position Flow Assumption

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

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Town did not have any deferred outflows of resources as of June 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town only has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balances sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Town had \$58,842 in deferred inflows of resources as of June 30, 2014.

14. Upcoming Pronouncements

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 2—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$3,182) difference are as follows:

Compensated absences	\$	<u>(3,182)</u>
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net position—governmental activities</i>	\$	<u><u>(3,182)</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this (\$21,452) difference are as follows:

Capital outlay	\$	8,357
Depreciation expense		<u>(29,809)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances—total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$	<u><u>(21,452)</u></u>

Another element of that reconciliation states that “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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The Town had no long-term debt in its governmental funds for the year ended June 30, 2014.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 2—RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS: (CONTINUED)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Another element of that reconciliation states that “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.” The details of this \$8,328 difference are as follows:

Decrease in compensated absences	\$ <u>8,328</u>
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>8,328</u></u>

NOTE 3—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 March 30, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. 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 function level. The appropriation for each department or category 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.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 3—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY: (CONTINUED)**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2014, the following departments had expenditures which exceeded appropriations:

<u>Fund</u>	<u>Function</u>	<u>Department</u>	<u>Excess of Expenditures over Appropriations</u>
General	General government administration	Town Council	\$ 848
General	General government administration	Finance & Admin	19,356
General	General government administration	Insurance	1,649
General	Public safety	Town sergeant	13,737
General	Public safety	Rescue Squad	9,000
General	Health and welfare	Tax relief for the elderly	2,370
General	Non-departmental	Miscellaneous	10,989
General	Capital projects	Capital outlay	18,038
Total General Fund			\$ <u>75,987</u>

C. Deficit Fund Equity

At June 30, 2014, there were no funds with deficit fund equity.

NOTE 4—INTERFUND OBLIGATIONS:

Interfund receivables/payables are the net result of temporary overdrafts in the operating and payroll bank accounts of one fund which is offset by positive amounts in other funds. At June 30, 2014:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 232,518	\$ 39,264
Water Fund	188,922	-
Sewer Fund	-	399,553
Flood Fund	17,377	-
Total	\$ <u>438,817</u>	\$ <u>438,817</u>

TOWN OF GLASGOW, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 5—DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units at June 30, 2014, are as follows:

<u>Commonwealth of Virginia:</u>		
PPTRA	\$	21,462
Sales tax		6,784
Rolling stock		11,228
Communications tax		3,548
Fire programs		1,000
Mobile home		75
Total	\$	<u>44,097</u>

NOTE 6—CAPITAL ASSETS:

Governmental Activities:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 1,303,410	\$ -	\$ -	\$ 1,303,410
Total capital assets not being depreciated	\$ 1,303,410	\$ -	\$ -	\$ 1,303,410
Capital assets being depreciated:				
Buildings and improvements	\$ 242,014	\$ 8,357	\$ -	\$ 250,371
Infrastructure	125,226	-	-	125,226
Machinery and equipment	481,737	-	-	481,737
Total capital assets being depreciated	\$ 848,977	\$ 8,357	\$ -	\$ 857,334
Less: Accumulated depreciation:				
Buildings and improvements	\$ (145,491)	\$ (9,553)	\$ -	\$ (155,044)
Infrastructure	(90,123)	(1,526)	-	(91,649)
Machinery and equipment	(407,792)	(18,730)	-	(426,522)
Total accumulated depreciation	\$ (643,406)	\$ (29,809)	\$ -	\$ (673,215)
Capital assets being depreciated, net	\$ 205,571	\$ (21,452)	\$ -	\$ 184,119
Governmental activities capital assets, net	\$ 1,508,981	\$ (21,452)	\$ -	\$ 1,487,529

TOWN OF GLASGOW, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Business-Type Activities:

	Balance July 1, 2013	Increases	Decreases	Transfers/Re- classifications	Balance June 30, 2014
Water Fund					
Capital assets not being depreciated:					
Construction in progress	\$ 176,025	\$ 707,015	\$ (62,580)	\$ (48,905)	\$ 771,555
Total capital assets not being depreciated	\$ 176,025	\$ 707,015	\$ (62,580)	\$ (48,905)	\$ 771,555
Capital assets being depreciated:					
Infrastructure	\$ 368,394	\$ 18,559	\$ -	\$ 48,905	\$ 435,858
Less: Accumulated depreciation	(352,996)	(7,013)	-	-	(360,009)
Total capital assets being depreciated, net	\$ 15,398	\$ 11,546	\$ -	\$ 48,905	\$ 75,849
Water fund capital assets, net	\$ 191,423	\$ 718,561	\$ (62,580)	\$ -	\$ 847,404
Sewer Fund					
Capital assets not being depreciated:					
Land	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
Construction in progress	51,272	762	(3,582)	-	48,452
Total capital assets not being depreciated	\$ 52,772	\$ 762	\$ (3,582)	\$ -	\$ 49,952
Capital assets being depreciated:					
Infrastructure	\$ 2,912,060	\$ -	\$ -	\$ -	\$ 2,912,060
Less: Accumulated depreciation	(1,442,414)	(73,812)	-	-	(1,516,226)
Total capital assets being depreciated, net	\$ 1,469,646	\$ (73,812)	\$ -	\$ -	\$ 1,395,834
Sewer fund capital assets, net	\$ 1,522,418	\$ (73,050)	\$ (3,582)	\$ -	\$ 1,445,786

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

Governmental Activities:

General government	\$ 7,451
Public safety	10,727
Public works	11,631
Total depreciation expense-governmental activities	\$ 29,809

Business-Type Activities:

Water Fund	\$ 7,013
Sewer Fund	73,812
Total depreciation expense-business-type activities	\$ 80,825

TOWN OF GLASGOW, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 7—LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
<u>Governmental Activities</u>				
Compensated Absences	\$ 11,510	\$ -	\$ (8,328)	\$ 3,182
Total governmental activities	<u>\$ 11,510</u>	<u>\$ -</u>	<u>\$ (8,328)</u>	<u>\$ 3,182</u>
<u>Business-Type Activities</u>				
Notes Payable	\$ -	\$ 242,124	\$ -	\$ 242,124
Compensated Absences	5,328	771	-	6,099
Total business-type activities	<u>\$ 5,328</u>	<u>\$ 242,895</u>	<u>\$ -</u>	<u>\$ 248,223</u>

Details of Long-Term Obligations:

	Total Amount	Amount Due Within One Year
<u>Governmental Activities</u>		
Compensated Absences (payable from General Fund)	\$ 3,182	\$ -
Total Governmental Activities Obligations	<u>\$ 3,182</u>	<u>\$ -</u>
<u>Business-Type Activities</u>		
<u>Virginia Water Facilities Revolving Loan</u>		

\$2,807,500 Virginia Water Facilities Revolving Loan, dated March 13, 2014, bearing interest at 2.5%. The loan is secured by the pledge of the Town's revenues from its water and sewer system, as well as the full faith and credit of the town. Once the loan funds are fully drawn, annual payments of principal and interest will be due through the note's maturity, March 13, 2045. On March 1, 2015 the loan was modified to increase the amount of the loan by \$569,989. See Note 15 for additional information.

	\$ 242,124	\$ -
Compensated Absences	\$ 6,099	\$ -
Total Business-Type Activities Obligations	<u>\$ 248,223</u>	<u>\$ -</u>
Total long-term obligations	<u>\$ 251,405</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 8—COMPENSATED ABSENCES:

Town employees earn sick leave at the rate of five days per year plus one day for each year of service. Sick time does not accumulate and is not paid upon retirement. Vacation leave is earned based on years of service. Up to five days may be carried over each calendar year. Any additional accrued vacation time is paid at the end of the year. Upon separation or retirement, a full-time employee shall be paid for all accrued annual leave, up to the maximum allowed. The Town has outstanding accrued compensated absences totaling \$9,281.

NOTE 9—PENSION PLAN:

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS – PLAN 1

- 1. Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

4. **Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

10. Normal Retirement Age - Age 65.

11. Earliest Unreduced Retirement Eligibility - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. Earliest Reduced Retirement Eligibility - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

13. Cost-of-Living Adjustment (COLA) in Retirement - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

14. Eligibility - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

15. Exceptions to COLA Effective Dates - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

- 16. Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

- 17. Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS – PLAN 2

- 1. Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

- 4. Retirement Contributions** – Same as VRS Plan 1—Refer to Section 4.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 2 (CONTINUED)

5. **Creditable Service** – Same as VRS Plan 1– Refer to Section 5.
6. **Vesting** – Same as VRS Plan 1–Refer to Section 6.
7. **Calculating the Benefit** – Same as VRS Plan 1–Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.
12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.
14. **Eligibility** – Same as VRS Plan 1–Refer to Section 14.
15. **Exceptions to COLA Effective Dates** – Same as VRS Plan 1–Refer to Section 15.
16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
17. **Purchase of Prior Service** – Same as VRS Plan 1–Refer to Section 17.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
 - The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - State employees*
 - School division employees
 - Political subdivision employees*
 - Judges appointed or elected to an original term on or after January 1, 2014
 - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014
3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
 - Members of the State Police Officers’ Retirement System (SPORS)
 - Members of the Virginia Law Officers’ Retirement System (VaLORS)
 - Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

4. **Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. **Creditable Service**

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

6. **Vesting**

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

7. Calculating the Benefit

Defined Benefit Component – Same as VRS Plan 1—Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation – Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. Normal Retirement Age

Defined Benefit Component – Same as VRS Plan 2—Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 9—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component – Same as VRS Plan 2—Refer to Section 13.

Defined Contribution Component – Not Applicable.

14. Eligibility – Same as VRS Plan 1 and VRS Plan 2—Refer to Section 14.

15. Exceptions to COLA Effective Dates – Same as VRS Plan 1 and VRS Plan 2—Refer to Section 15.

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 17.

Defined Contribution Component – Not Applicable.

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/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 9—PENSION PLAN: (CONTINUED)**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was 3.97% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2014, the Town's annual pension cost of \$8,384 was equal to the Town's required and actual contributions.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014 \$	9,281	100%	-
June 30, 2013	12,003	100%	-
June 30, 2012	-	100%	-

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 9— PENSION PLAN: (CONTINUED)**D. Funded Status and Funding Progress**

As of June 30, 2013, the most recent actuarial valuation date, the Town's plan was 150.13% funded. The actuarial accrued liability for benefits was \$402,352, and the actuarial value of assets was \$604,048, resulting in an unfunded (excess funded) actuarial accrued liability (UAAL) of (\$201,696). The covered payroll (annual payroll of active employees covered by the plan) was \$221,631, and ratio of the UAAL to the covered payroll was (91.01%).

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

NOTE 10—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.

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's investing activities are managed under the custody of the Treasurer. The Town has not adopted a policy regarding credit risk of debt securities.

The Town's rated debt investments as of June 30, 2014 were rated by Moody's and/or an equivalent national rating organization and the ratings are presented below using the Moody's rating scale.

Town's Rated Debt Investments' Values	
<u>Rated Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ 41,339
Total	\$ 41,339

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 10—DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pool

The fair value of the positions in the Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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; and natural disasters for which the Town carries commercial insurance. The Town also provides a risk management program for workers' compensation. Premiums are paid by the general fund and all other funds and are available to pay claims, claim reserves and administrative costs of the program.

The Town is a member of the Virginia Municipal Group Self Insurance Association for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

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

NOTE 12—COMMITMENTS:

On March 7, 1989, the Town of Glasgow entered into a 40-year contract with the County of Rockbridge and the Rockbridge County Public Service Authority whereby the parties agreed to share the costs of upgrading Glasgow's wastewater treatment facility as well as the operating costs of the expanded facility. In effect, the agreement provided for the expansion of the facility from a daily wastewater capacity of approximately 125,000 gallons to 495,000 gallons. The mutually agreed upon costs of upgrading the facility was borne 65% by the Town and 35% by the County or Authority. The ownership of the facility and all loans incurred for construction are solely those of the Town of Glasgow; however, 35% of the costs of debt service and operations are being borne by the County or Authority. The contract also provides for renewal terms totaling up to 50 years at the option of the County or Authority.

NOTE 13—LITIGATION:

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

TOWN OF GLASGOW, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)

NOTE 14—CONSTRUCTION CONTRACTS OUTSTANDING:

The Town had the following material contract outstanding at June 30, 2014:

	Original Contract Amount	Amount Spent to Date	Amount of Contract Remaining at Year End
Water system improvements	\$ <u>2,462,234</u>	\$ <u>508,566</u>	\$ <u>1,953,668</u>

NOTE 15—SUBSEQUENT EVENT:

On March 1, 2015 the Town's Virginia Water Facilities Revolving Loan Series 2014 was modified to increase the principal available under the loan by \$569,989. The additional loan principal will be used to fund water line improvements and variance issuance costs. The revised principal amount of the loan per the financing agreement is \$3,377,489.

REQUIRED SUPPLEMENTARY INFORMATION

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 200,500	\$ 200,500	\$ 196,241	\$ (4,259)
Other local taxes	178,500	178,500	159,482	(19,018)
Permits, privilege fees, and regulatory licenses	1,000	1,000	-	(1,000)
Fines and forfeitures	10,000	10,000	7,617	(2,383)
Revenue from the use of money and property	500	500	1,766	1,266
Charges for services	-	-	2,139	2,139
Miscellaneous	53,739	53,739	37,886	(15,853)
Recovered costs	-	-	212	212
Intergovernmental revenues:				
Commonwealth	76,869	76,869	95,098	18,229
Total revenues	<u>\$ 521,108</u>	<u>\$ 521,108</u>	<u>\$ 500,441</u>	<u>\$ (20,667)</u>
EXPENDITURES				
General government administration	\$ 201,624	\$ 201,624	\$ 222,307	\$ (20,683)
Public safety	86,320	86,320	109,057	(22,737)
Public works	135,083	135,083	124,322	10,761
Health and welfare	-	-	2,370	(2,370)
Parks, recreation, and cultural	10,000	10,000	5,646	4,354
Nondepartmental	7,200	7,200	18,189	(10,989)
Capital projects	-	-	18,038	(18,038)
Total expenditures	<u>\$ 440,227</u>	<u>\$ 440,227</u>	<u>\$ 499,929</u>	<u>\$ (59,702)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 80,881</u>	<u>\$ 80,881</u>	<u>\$ 512</u>	<u>\$ (80,369)</u>
Net change in fund balances	\$ 80,881	\$ 80,881	\$ 512	\$ (80,369)
Fund balances - beginning	630,079	630,079	606,398	(23,681)
Fund balances - ending	<u>\$ 710,960</u>	<u>\$ 710,960</u>	<u>\$ 606,910</u>	<u>\$ (104,050)</u>

Schedule of Pension Funding Progress
June 30, 2014

Town Retirement Plan

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)
6/30/2013	\$ 604,048	\$ 402,352	\$ (201,696)	150.13%	\$ 221,631	(91.01)%
6/30/2012	572,961	390,279	(182,682)	146.81%	167,134	(109.30)%
6/30/2011	560,836	381,875	(178,961)	146.86%	198,857	(89.99)%
6/30/2010	538,045	335,722	(202,323)	160.27%	195,681	(103.39)%
6/30/2009	553,566	371,775	(181,791)	148.90%	156,754	(115.97)%

OTHER SUPPLEMENTARY INFORMATION

Town of Glasgow, Virginia
Balance Sheet
Nonmajor Governmental Fund
June 30, 2014

Exhibit 12

	Capital Projects Fund - Flood Fund
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 37,290
Due from other funds	<u>17,377</u>
Total assets	<u><u>\$ 54,667</u></u>
 FUND BALANCES	
Assigned	<u>\$ 54,667</u>
Total fund balances	<u><u>\$ 54,667</u></u>

Town of Glasgow, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Fund
Year Ended June 30, 2014

Exhibit 13

	Capital Projects Fund - Flood Fund
	<u> </u>
REVENUES	
Revenue from the use of money and property	\$ <u> -</u>
EXPENDITURES	
Nondepartmental	\$ <u> -</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u> -</u>
Net change in fund balances	\$ <u> -</u>
Fund balances - beginning	54,667
Fund balances - ending	\$ <u><u> 54,667 </u></u>

SUPPORTING SCHEDULES

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

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 108,000	\$ 108,000	\$ 104,674	\$ (3,326)
Real and personal public service corporation taxes	-	-	11,152	11,152
Personal property taxes	92,500	92,500	80,293	(12,207)
Penalties and interest	-	-	122	122
Total general property taxes	<u>\$ 200,500</u>	<u>\$ 200,500</u>	<u>\$ 196,241</u>	<u>\$ (4,259)</u>
Other local taxes:				
Local sales and use taxes	\$ 65,000	\$ 65,000	\$ 68,082	\$ 3,082
Consumers' utility taxes	60,000	60,000	41,787	(18,213)
Business license taxes	13,000	13,000	12,586	(414)
Motor vehicle licenses	24,000	24,000	16,728	(7,272)
Bank franchise tax	2,500	2,500	-	(2,500)
Meals tax	14,000	14,000	20,299	6,299
Total other local taxes	<u>\$ 178,500</u>	<u>\$ 178,500</u>	<u>\$ 159,482</u>	<u>\$ (19,018)</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ (1,000)</u>
Fines and forfeitures:				
Town fines	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 7,617</u>	<u>\$ (2,383)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 500	\$ 500	\$ 271	\$ (229)
Revenue from use of property	-	-	1,495	1,495
Total revenue from use of money and property	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 1,766</u>	<u>\$ 1,266</u>
Charges for services:				
Landscaping and mowing	\$ -	\$ -	\$ 974	\$ 974
Parks and recreation:				
Shelters, events, etc.	-	-	1,165	1,165
Total charges for services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,139</u>	<u>\$ 2,139</u>
Miscellaneous revenue:				
Miscellaneous	\$ 32,239	\$ 32,239	\$ 6,936	\$ (25,303)
Trash fees	18,000	18,000	16,932	(1,068)
Snow removal	3,500	3,500	14,018	10,518
Total miscellaneous revenue	<u>\$ 53,739</u>	<u>\$ 53,739</u>	<u>\$ 37,886</u>	<u>\$ (15,853)</u>
Recovered costs:				
Insurance recoveries	\$ -	\$ -	\$ 212	\$ 212
Total recovered costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212</u>	<u>\$ 212</u>
Total revenue from local sources	<u>\$ 444,239</u>	<u>\$ 444,239</u>	<u>\$ 405,343</u>	<u>\$ (38,896)</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 10,000	\$ 10,000	\$ 11,231	\$ 1,231
Mobile home titling tax	-	-	405	405
Personal property tax relief funds	16,104	16,104	21,462	5,358
Communications tax	13,259	13,259	17,671	4,412
Total noncategorical aid	<u>\$ 39,363</u>	<u>\$ 39,363</u>	<u>\$ 50,769</u>	<u>\$ 11,406</u>
Categorical aid:				
Local law enforcement block grant	\$ 24,000	\$ 24,000	\$ 24,240	\$ 240
Fire programs	13,506	13,506	18,000	4,494
VDOT reimbursement	-	-	2,089	2,089
Total categorical aid	<u>\$ 37,506</u>	<u>\$ 37,506</u>	<u>\$ 44,329</u>	<u>\$ 6,823</u>
Total revenue from the Commonwealth	<u>\$ 76,869</u>	<u>\$ 76,869</u>	<u>\$ 95,098</u>	<u>\$ 18,229</u>
Total General Fund	<u>\$ 521,108</u>	<u>\$ 521,108</u>	<u>\$ 500,441</u>	<u>\$ (20,667)</u>

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

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 3,665	\$ 3,665	\$ 4,513	\$ (848)
General and financial administration:				
Legal services	\$ 9,646	\$ 9,646	\$ 8,476	\$ 1,170
Finance and administration	173,528	173,528	192,884	(19,356)
Insurance	14,785	14,785	16,434	(1,649)
Total general and financial administration	\$ 197,959	\$ 197,959	\$ 217,794	\$ (19,835)
Total general government administration	\$ 201,624	\$ 201,624	\$ 222,307	\$ (20,683)
Public safety:				
Law enforcement and traffic control:				
Town sergeant	\$ 63,320	\$ 63,320	\$ 77,057	\$ (13,737)
Fire and rescue services:				
Rescue squad	\$ 23,000	\$ 23,000	\$ 32,000	\$ (9,000)
Total fire and rescue services	\$ 23,000	\$ 23,000	\$ 32,000	\$ (9,000)
Total public safety	\$ 86,320	\$ 86,320	\$ 109,057	\$ (22,737)
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 106,907	\$ 106,907	\$ 98,391	\$ 8,516
Maintenance of general buildings and grounds:				
General properties	\$ 28,176	\$ 28,176	\$ 25,931	\$ 2,245
Total public works	\$ 135,083	\$ 135,083	\$ 124,322	\$ 10,761
Health and welfare:				
Welfare:				
Tax relief for the elderly	\$ -	\$ -	\$ 2,370	\$ (2,370)
Total health and welfare	\$ -	\$ -	\$ 2,370	\$ (2,370)
Parks, recreation, and cultural:				
Library:				
County library	\$ 10,000	\$ 10,000	\$ 5,646	\$ 4,354
Total parks, recreation, and cultural	\$ 10,000	\$ 10,000	\$ 5,646	\$ 4,354
Non-departmental:				
Miscellaneous	\$ 7,200	\$ 7,200	\$ 18,189	\$ (10,989)
Capital projects:				
Capital outlay	\$ -	\$ -	\$ 18,038	\$ (18,038)
Total capital projects	\$ -	\$ -	\$ 18,038	\$ (18,038)
Total General Fund	\$ 440,227	\$ 440,227	\$ 499,929	\$ (59,702)

STATISTICAL INFORMATION

Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Health and Welfare	Parks, Recreation, and Cultural	Interest on Long-Term Debt	Water Fund (1)	Sewer Fund	Total
2004-05	\$ 137,463	\$ 103,770	\$ 121,487	\$ 1,318	\$ 11,693	\$ 5,207	\$ 37,896	\$ 141,930	\$ 560,764
2005-06	130,962	111,256	118,667	1,227	16,087	3,817	46,916	150,655	579,587
2006-07	153,954	97,708	192,571	1,988	20,962	1,257	46,996	161,541	676,977
2007-08	147,265	92,823	184,602	3,000	11,931	1,498	41,213	168,025	650,357
2008-09	154,311	88,200	180,374	2,730	13,389	651	38,984	164,182	642,821
2009-10	158,787	88,314	180,779	4,432	12,356	100	38,841	181,763	665,372
2010-11	190,520	113,880	184,070	2,595	17,620	-	70,783	232,456	811,924
2011-12	171,409	108,937	176,024	2,527	38,373	-	74,667	222,318	794,255
2012-13	236,034	95,402	128,218	2,415	27,930	-	61,818	234,763	786,580
2013-14	246,738	115,611	142,476	2,370	5,646	-	160,817	275,230	948,888

(1) During fiscal year 2014 a well drilling capital project with a cost of \$62,580 was abandoned

Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs		
2004-05	\$ 183,619	\$ 33,646	\$ -	\$ 124,330	\$ 163,019	\$ 10,184	\$ 65,172	\$ 20,926	\$ 600,896	
2005-06	193,917	37,784	-	140,599	163,799	12,514	74,620	52,124	675,357	
2006-07	217,108	46,744	-	135,214	178,247	22,862	54,849	38,823	693,847	
2007-08	215,942	42,776	-	154,660	142,183	28,139	45,609	54,693	684,002	
2008-09	258,342	42,776	31,536	174,332	135,325	11,868	49,670	53,837	757,686	
2009-10	266,966	37,776	33,074	174,193	138,602	7,663	30,426	45,918	734,618	
2010-11	363,600	34,119	-	172,926	143,892	1,997	59,738	72,704	848,976	
2011-12	359,559	45,430	-	191,917	137,548	2,939	49,922	55,466	842,781	
2012-13	327,468	31,657	45,683	205,730	155,177	1,917	54,200	54,656	876,488	
2013-14	353,746	44,329	42,728	223,413	159,482	1,766	47,289	50,769	923,522	

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Health and Welfare	Parks, Recreation, and Cultural	Capital Projects	Non-Departmental	Debt Service	Total
2004-05	\$ 128,379	\$ 96,891	\$ 118,880	\$ 1,318	\$ 11,693	\$ 66,072	\$ 2,877	\$ 81,796	\$ 507,906
2005-06	125,031	104,549	155,883	1,227	16,087	50,831	1,921	39,763	495,292
2006-07	152,873	90,672	158,428	1,988	20,962	-	1,186	23,754	449,863
2007-08	107,287	87,166	152,376	3,000	11,931	-	1,148	23,754	386,662
2008-09	147,578	81,655	148,799	2,730	13,389	-	4,271	23,753	422,175
2009-10	145,361	78,937	154,465	4,432	12,356	24,476	14,197	10,618	444,842
2010-11	187,269	101,872	178,031	2,595	17,620	-	10,465	-	497,852
2011-12	143,791	99,659	193,201	2,527	38,373	3,381	47,642	-	528,574
2012-13	203,350	79,446	141,186	2,415	27,930	30,210	40,122	-	524,659
2013-14	222,307	109,057	124,322	2,370	5,646	18,038	18,189	-	499,929

(1) Includes General and Flood Funds of the Town.

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

Fiscal Year	General Property Taxes	Other Local Taxes	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter- governmental	Total
2004-05	\$ 115,598	\$ 163,019	\$ 2,398	\$ 7,481	- \$	28,621	\$ -	54,572	\$ 371,689
2005-06	129,815	163,799	4,306	7,395	-	38,082	-	89,908	433,305
2006-07	154,590	178,247	6,712	8,917	-	16,738	-	80,567	445,771
2007-08	158,237	142,183	3,241	13,223	-	10,824	-	92,469	420,177
2008-09	173,720	135,325	2,366	4,117	-	17,557	-	91,613	424,698
2009-10	169,804	138,602	8,780	2,379	-	25,062	-	83,694	428,321
2010-11	170,682	143,892	5,885	1,997	-	48,116	1,900	88,823	461,295
2011-12	188,191	155,568	16,534	2,939	-	36,547	-	99,351	499,130
2012-13	197,010	155,177	4,737	1,917	8,295	53,757	45,601	86,313	552,807
2013-14	196,241	159,482	7,617	1,766	2,139	37,886	212	95,098	500,441

(1) Includes General and Flood Funds of the Town.

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) Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2004-05	\$ 135,723	\$ 124,665	91.85%	\$ 2,501	\$ 127,166	93.70%
2005-06 (2)	138,777	166,924	120.28%	5,616	172,540	124.33%
2006-07	176,226	167,065	94.80%	8,985	176,050	99.90%
2007-08	163,543	155,524	95.10%	2,713	158,237	96.76%
2008-09	172,351	148,035	85.89%	25,685	173,720	100.79%
2009-10	189,649	158,298	83.47%	15,896	174,194	91.85%
2010-11	191,892	141,877	73.94%	31,047	172,924	90.12%
2011-12	204,992	160,744	78.41%	27,447	188,191	91.80%
2012-13	215,586	175,054	81.20%	21,797	196,851	91.31%
2013-14	218,012	183,598	84.21%	12,521	196,119	89.96%

(1) Exclusive of penalties and interest.

(2) Two years worth of PPTRA were included in the FY 2006 audit.

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property	Machinery and Tools	Mobile Homes	Public Utility (2) Real Estate	Total
2004-05	\$ 38,166,900	\$ 4,657,743	\$ 4,644,582	\$ 327,800	\$ 2,983,274	\$ 50,780,299
2005-06	38,937,900	4,834,315	4,614,991	261,400	2,562,019	51,210,625
2006-07	58,191,200	5,510,468	4,764,338	256,483	2,666,693	71,389,182
2007-08	58,476,200	6,270,706	4,768,478	241,200	4,051,858	73,808,442
2008-09	58,980,700	5,789,766	6,292,179	318,900	3,731,880	75,113,425
2009-10	59,463,200	4,892,315	6,556,563	304,700	3,913,800	75,130,578
2010-11	59,485,800	4,904,911	6,636,374	282,120	4,900,842	76,210,047
2011-12	57,708,500	5,295,442	8,583,117	220,840	3,463,261	75,271,160
2012-13	57,823,000	5,461,819	9,330,168	217,113	5,539,127	78,371,227
2013-14	57,953,400	5,208,013	9,846,496	182,063	6,028,005	79,217,977

(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
2004-05	0.175	0.175	0.85	0.60
2005-06	0.175	0.175	0.85	0.60
2006-07	0.175	0.175	0.85	0.60
2007-08	0.175	0.175	0.85	0.60
2008-09	0.175	0.175	0.85	0.60
2009-10	0.175	0.175	0.85	0.60
2010-11	0.175	0.175	0.85	0.60
2011-12	0.185	0.185	0.85	0.60
2012-13	0.185	0.185	0.85	0.60
2013-14	0.185	0.185	0.85	0.60

(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 (in thousands) (2)	Gross Bonded Debt (3)	Less: Debt Payable from Enterprise Activities	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2004-05	1,140	\$ 50,780,299	\$ 780,174	\$ 763,010	\$ 17,164	0.00%	15
2005-06	1,140	51,210,625	653,792	645,624	8,168	0.00%	7
2006-07	1,140	71,389,182	528,238	528,238	-	0.00%	-
2007-08	1,140	73,808,442	443,570	410,851	32,719	0.00%	29
2008-09	1,046	75,113,425	303,684	293,465	10,219	0.00%	10
2009-10	1,133	75,130,578	176,079	176,079	-	0.00%	-
2010-11	1,131	76,210,047	58,693	58,693	-	0.00%	-
2011-12	1,137	75,271,160	-	-	-	0.00%	-
2012-13	1,136	78,371,227	-	-	-	0.00%	-
2013-14	1,133	79,217,977	-	-	-	0.00%	-

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

(2) Real property assessed at 100% of fair market value (from Table 6).

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

Computation of Legal Debt Margin
June 30, 2014

Total Assessed Value of Real Estate	\$ <u><u>57,953,400</u></u>
Legal Debt Margin:	\$ 5,795,340
Less: Gross Indebtedness	\$ <u>-</u>
Legal Margin for Creation of Additional Debt	\$ <u><u>5,795,340</u></u>

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL TOWN OF GLASGOW, 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, each major fund, and the aggregate remaining fund information of the Town of Glasgow, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Glasgow, Virginia's basic financial statements, and have issued our report thereon dated April 27, 2015.

Internal Control over Financial Reporting

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

Staunton, Virginia
April 27, 2015