

TOWN OF LOVETTSVILLE, VIRGINIA DIRECTORY OF OFFICIALS

COUNCIL

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FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2014

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of the Town Council Town of Lovettsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

*Opinion*s

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major fund of Town of Lovettsville, 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 management's discussion and analysis, budgetary comparison information, and schedule of pension funding progress on pages 3-9, 45, and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the Town of Lovettsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Lovettsville, Virginia's internal control over financial reporting and compliance.

Hobinson, farmy, Cox fasociates Charlottesville, Virginia
December 29, 2014

Management's Discussion and Analysis

As management of the Town of Lovettsville (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. Please read it in conjunction with the Town's basic financial statements, which follow this section.

Financial Highlights

- The assets of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$11.4 million (*net position*). Of this amount, \$3.9 million (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$75,877, of which the governmental activities accounted for a \$51,918 decrease and business-type activities accounted for a \$23,959 decrease.
- The unassigned ending fund balance for the Town's governmental fund is \$1.12 million. Total general fund balance was also made up of \$1.6 million in restricted funds, and \$.15 million in committed funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1.12 million, or 125% of governmental fund expenditures less any capital outlay expenditures.
- The Town's total debt decreased by \$447,991 during the current fiscal year. This is due to routine principal payments.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

Overview of the Financial Statements: (Continued)

Government-wide financial statements: (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety (the Town does not have its own public safety department but does receive pass through funds from the state), public works, parks, recreation and cultural, and community development. The business-type activities are for public utilities. The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements

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

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

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

The Town maintains one governmental fund, a General Fund. The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

The Town maintains one type of *Proprietary Fund*. The Town uses *enterprise funds*, which are used to report the same functions presented as *business-type activities* in the government-wide financial statements, to account for its public utilities. The basic proprietary fund financial statements can be found on pages 16 through 18 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 44 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows by \$11.4 million at the close of the most recent fiscal year. A portion of the Town's net position (\$7.4 million, 65% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, machinery and equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (i.e., the Town's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

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

Town of Lovettsville, Virginia Summary of Net Position

	Governmental Activities		Business Activi	٠.	Total		
	2014	2013	2014	2013	2014	2013	
Current and other assets Capital assets	\$ 3,481,468 \$ 2,744,691	4,425,650 \$ 1,818,997	2,859,853 \$ 9,458,260	3,013,394 \$ 9,756,466	6,341,321 \$ 12,202,951	7,439,044 11,575,463	
Total assets Long-term liabilities	\$ 6,226,159 \$	6,244,647 \$	12,318,113 \$	12,769,860 \$	18,544,272 \$	19,014,507	
outstanding Other liabilities	\$ 1,870,364 \$ 119,517	1,940,647 \$ 68,511	4,485,049 \$ 199,290	4,862,757 \$ 249,370	6,355,413 \$ 318,807	6,803,404 317,881	
Total liabilities	\$ 1,989,881 \$	2,009,158 \$	4,684,339 \$	5,112,127 \$	6,674,220 \$	7,121,285	
Deferred inflows of resources	\$ 494,786 \$	442,079 \$	\$	\$	494,786 \$	442,079	
Net position: Net investment in capital assets Restricted Unrestricted	\$ 2,450,552 \$ 50,194 1,240,746	1,721,876 \$ - 2,071,534	4,975,894 \$ - 2,657,880	4,895,969 \$ - 2,761,764	7,426,446 \$ 50,194 3,898,626	6,617,845 - 4,833,298	
Total net position	\$ 3,741,492 \$	3,793,410 \$	7,633,774 \$	7,657,733 \$	11,375,266 \$	11,451,143	

At the end of the current fiscal year, the Town is able to report positive balances in unrestricted net position, both for the Town as a whole, as well as for its separate governmental and business-type activities.

As noted previously, the Town's overall (governmental and business-type activities) net position decreased by \$75,877 during the current fiscal year.

Government-wide Financial Analysis: (Continued)

Governmental activities decreased the Town's net position by \$51,918. The following table summarizes the Town's Statement of Activities:

Town of Lovettsville, Virginia Changes in Net Position

		Governmental Activities		Business Activit		Total		
		2014	2013	2014	2013	2014	2013	
Revenues:								
Program revenues:								
Charges for services	\$	30,444 \$	13,260 \$	750,794 \$	705,286 \$	781,238 \$	718,546	
Operating grants and								
contributions		11,060	9,203	-	-	11,060	9,203	
Capital grants and								
contributions		-	-	345,100	432,700	345,100	432,700	
General revenues:								
Property taxes		437,388	420,024	2,637	2,503	440,025	422,527	
Other taxes		379,355	337,672	-	-	379,355	337,672	
Unrestricted revenues from the								
use of money and property		15,783	13,164	105,400	105,963	121,183	119,127	
Miscellaneous		10,503	7,405	17,867	14,804	28,370	22,209	
Grants and contributions not								
restricted to specific programs	_	14,548	13,959		<u> </u>	14,548	13,959	
Total revenues	\$_	899,081 \$	814,687 \$	1,221,798 \$	1,261,256 \$	2,120,879 \$	2,075,943	
Expenses:								
General government								
administration	\$	544,115 \$	482,488 \$	- \$	- \$	544,115 \$	482,488	
Public safety		12,620	8,150	-	-	12,620	8,150	
Public works		161,518	130,344	-	-	161,518	130,344	
Parks, recreation and cultural		38,200	19,791	-	-	38,200	19,791	
Community development		119,904	54,346	-	-	119,904	54,346	
Interest on long-term debt		74,642	74,955	-	-	74,642	74,955	
Water and sewer fund	_	<u> </u>		1,245,757	1,279,471	1,245,757	1,279,471	
Total expenses	\$_	950,999 \$	770,074 \$	1,245,757 \$	1,279,471 \$	2,196,756 \$	2,049,545	
Increase/(decrease) in net position	\$_	(51,918) \$	44,613 \$	(23,959) \$	(18,215) \$	(75,877) \$	26,398	
Net position-beginning of year	\$_	3,793,410 \$	3,748,797 \$	7,657,733 \$	7,675,948 \$	11,451,143 \$	11,424,745	
Net position-end of year	\$	3,741,492\$	3,793,410\$	7,633,774\$	7,657,733 \$	11,375,266 \$	11,451,143	

The following analysis separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased by \$84,394 and expenses increased by \$180,925. Some contributing factors driving these results include:

Revenues

• Increase in the amounts received from property taxes, meals tax and business licenses.

Government-wide Financial Analysis: (Continued)

Governmental Activities: (Continued)

Expenses

- Interest expense decreased \$48,150 due to the repayment of bonds.
- General Government Administration overall increased by \$61,627. An increase in costs for salaries and benefits attributed to the overall increase.
- Community development increased by \$65,558.

Business-type Activities

Revenues for the Town's business-type activities have decreased by \$39,458 (3%) and expenses decreased by \$33,714 (3%). The change over the prior year are insignificant.

Financial Analysis of the Town's Funds

As noted earlier, The Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Town consolidates the General Fund and General Capital Fund for financial reporting.

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

- The Town's FY 2014 general fund revenues were less than those of FY 2013 by \$88,073. This increase is primarily attributed to an increase in property taxes, meals tax and business license revenues.
- In FY2014, the general fund's expenditures, excluding capital outlay, were less than revenues in the amount of \$2,206. Capital outlay expenditures in the amount of \$1,051,768 were largely funded with debt issuances.
- At the end of the current fiscal year, unassigned fund balance of the General fund was \$1.12 million.

Proprietary Fund: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the water and sewer funds at the end of the year amounted to \$2.65 million.

As the Town completed the year, its proprietary funds (presented in the balance sheet as Exhibit 7) reported net position of \$7,633,774. The total net position decreased by \$23,959 from the prior year. Significant changes in net position are noted in the previous section under "business-type" activities. There were minor increases in personnel costs, fringe benefits, contractual services and a few other categories.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$12.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, utility system and machinery and equipment as well as construction in progress.

Town of Lovettsville, Virginia Capital Assets (net of depreciation)

		Governmental	Activities	Business-type	Activities	Total		
		2014	2013	2014	2013	2014	2013	
Land	\$	960,877 \$	960,877 \$	154,200 \$	154,200 \$	1,115,077 \$	1,115,077	
Buildings		82,148	79,411	-	-	82,148	79,411	
Land improvements		383,921	208,781	-	-	383,921	208,781	
Machinery and equipment		8,833	13,794	-	-	8,833	13,794	
Infrastructure		47,290	50,493	-	-	47,290	50,493	
Utility system		-	-	9,184,462	9,504,621	9,184,462	9,504,621	
Contruction in progress	_	1,261,622	505,641	119,598	97,645	1,381,220	603,286	
Total	\$_	2,744,691 \$	1,818,997 \$	9,458,260 \$	9,756,466 \$	12,202,951 \$	11,575,463	

Additional information on the Town's capital assets can be found in Note 5 on pages 28 and 29 of this report.

Long-term obligations: At the end of the current fiscal year, the Town had total outstanding debt of \$6.8 million and details are summarized in the following table:

Town of Lovettsville, Virginia
Outstanding Obligations

		Governm Activi		Business Activi		Total		
		2014 2013		2014	2013	2014	2013	
Bonds Payable:								
General obligation bonds	\$	1,815,000 \$	1,890,000 \$	- \$	- \$	1,815,000 \$	1,890,000	
VRA bonds	•	-	-	4,482,366	4,860,497	4,482,366	4,860,497	
Premium on bond issuance		23,289	24,953	-	-	23,289	24,953	
Compensated absences	_	32,075	25,694	2,683	2,260	34,758	27,954	
Total	\$_	1,870,364 \$	1,940,647 \$	4,485,049 \$	4,862,757 \$	6,355,413 \$	6,803,404	

Debt associated with governmental activities decreased by \$70,283 while debt associated with business-type activities decreased by \$377,708. The decrease is attributed to the repayment of principal.

The Town is subject to a statutory debt limitation. The legal debt margin is limited to 10% of total assessed value. The margin is computed as all bonded debt and long-term notes except for enterprise indebtedness over total assessed value of taxed real property. The Town was in compliance with debt limitation as of June 30, 2014.

Additional information on the Town's long-term debt and compliance can be found in Note 7.

Economic Factors and Next Year's Budgets and Rates

The Town anticipates a slowly improving economy with slight growth expected over the course of the next year. The following is a summary of the Town of Lovettsville's budget for FY2015.

General Fund

The Town consolidates the General Fund and General Capital Fund for financial reporting.

General Fund budgeted revenues increased by \$94,550 (\$820,025 in FY2015 compared to \$725,475 in FY2014) or 13 percent. Budgeted property tax revenues increased by \$81,000. While the property tax rate remained the same at 21 cents per hundred, the tax base increased significantly with reassessment and additional construction.

General Fund budgeted expenditures increased by \$94,550 (\$820,025 in FY 2015 compared to \$725,475 in FY 2014) or 13 percent. Budgeted healthcare benefits increased \$22,450 while budgeted retirement benefits decreased by \$13,250 due to a reduction in the Town's contribution rate for the 2014-16 biennium. Vehicle and Park equipment expenditures increased by \$41,000 for anticipated purchases of a town vehicle and tractor. Beautification expenditures increased \$8,000 to fund construction of an informational sign in the Town Square.

Utility Fund

Utility Fund budgeted revenues increased by \$67,245 (\$867,730 in FY2015 compared to \$800,485 in FY2014) or 8.4 percent. Budgeted water and sewer service has increased \$74,350. This additional revenue is attributable to a 4.8 percent rate increase effective October 2014 and anticipated new home constructions added to the system. Antenna lease revenue was reduced by \$23,600 because a lease agreement was not renewed.

Utility Fund budgeted expenditures increased by \$67,245 (\$867,730 in FY2015 compared to \$800,485 in FY2014) or 8.4 percent. Salaries and benefits increased by \$252,100 and contractual services decreased by \$229,000 as the Town hired its own utility operators instead of contracting with Loudoun Water to provide operators. The Town's Utility Vehicle/Miscellaneous budget was increased by \$22,650 for anticipated higher costs for vehicle maintenance, uniforms, and operator training.

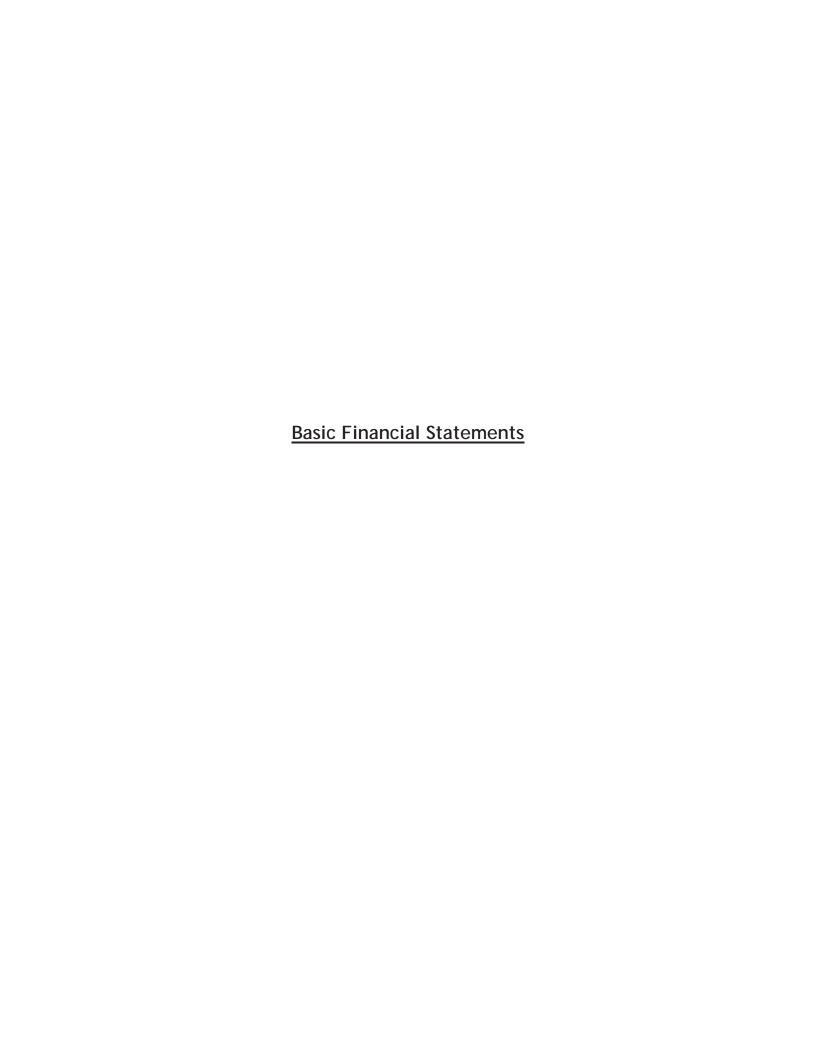
Capital Projects Fund

The Town's FY2015 Capital Improvement Plan includes \$829,234 in spending for general capital projects/debt financing, and \$890,307 for utility capital projects/debt financing. The projects include water tower repairs, water line improvements, improvements to East Broad Way, Quarter branch Park development, storm ditch improvement, and Town green improvements. Funding for these projects will come from a variety of sources including Utility Fund reserves, General Fund reserves, Transportation Enhancement grant, dedicated meals and cigarette taxes, debt financing, and sewer tap fees.

In conclusion, the proposed budget is balanced in accordance with state statutes, and revenues based on conservative estimates, while expenditures are based on historical data, as well as actual proposed costs.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Office at 6 East Pennsylvania Avenue, Lovettsville, Virginia.





Statement of Net Position As of June 30, 2014

		Primary Government				
	-	Governmental		Business-type		
	_	Activities		Activities	_	Total
ASSETS						
Cash and cash equivalents	\$	1,158,257	\$	2,784,513	\$	3,942,770
Receivables (net of allowance for uncollectibles):	*	.,.00,20,	•	2//01/010	*	0,7.12,7.70
Taxes receivable		508,706		-		508,706
Other local receivables		15,864		-		15,864
Accounts receivable		-		145,173		145,173
Interest receivable		11,738		-		11,738
Internal balances		148,439		(148,439)		-
Due from other governmental units		30,824		-		30,824
Restricted assets:						
Cash and cash equivalents		1,607,640		78,606		1,686,246
Capital assets (net of accumulated depreciation):						
Land		960,877		154,200		1,115,077
Buildings		82,148		-		82,148
Land improvements		383,921		-		383,921
Machinery and equipment Infrastructure		8,833 47,290		-		8,833 47,290
Utility system		47,290		9,184,462		47,290 9,184,462
Construction in progress		1,261,622		119,598		1,381,220
Construction in progress	-	1,201,022		117,370	_	1,301,220
Total assets	\$	6,226,159	\$	12,318,113	\$_	18,544,272
LIABILITIES						
Accounts payable	\$	37,949	\$	66,309	\$	104,258
Accrued expenses		48,834		4,356		53,190
Accrued interest payable		32,734		36,878		69,612
Deposits held		-		91,747		91,747
Long-term liabilities:						
Due within one year		79,872		389,046		468,918
Due in more than one year	_	1,790,492		4,096,003	_	5,886,495
Total liabilities	\$	1,989,881	\$	4,684,339	\$	6,674,220
DEFERRED INFLOWS OF RESOURCES						
Deferred revenue-property taxes	\$	494,786	\$	-	\$	494,786
NET POSITION						
Net investment in capital assets	\$	2,450,552	\$	4,975,894	\$	7,426,446
Restricted:	Ψ	2,100,002	Ψ	.,,,,,,,,,	Ψ	,,.20,110
Proffers - capital projects		50,194				50,194
Unrestricted		1,240,746		2,657,880		3,898,626
om ostricted	-	1,240,140		2,007,000	_	3,070,020
Total net position	\$	3,741,492	\$	7,633,774	\$_	11,375,266

Statement of Activities For the Year Ended June 30, 2014

			Program Reven		Net (Expense) Revenue and Changes in Net Position					
		Charges	Operating	Capital	Pri	mary Governmen	<u>t </u>			
Functions/Programs	Expenses	for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total			
PRIMARY GOVERNMENT:										
Governmental activities:										
General government										
administration	\$ 544,115	\$ 13,789 \$	- \$	-	\$ (530,326) \$	- \$	(530,326)			
Public safety	12,620	-	11,060	-	(1,560)	-	(1,560)			
Public works	161,518	-	-	-	(161,518)	-	(161,518)			
Parks, recreation, and cultural	38,200	-	-	-	(38,200)	-	(38,200)			
Community development	119,904	16,655	-	-	(103,249)	-	(103,249)			
Interest on long-term obligations	74,642				(74,642)		(74,642)			
Total governmental activities	\$ 950,999	\$ 30,444 \$	11,060 \$	-	\$ (909,495)	\$\$	(909,495)			
Business-type activities:										
Water and Sewer	\$ 1,245,757	\$ 750,794 \$		345,100	\$	\$ (149,863) \$	(149,863)			
Total business-type activities	\$_1,245,757	\$ 750,794 \$	\$	345,100		\$ (149,863) \$	(149,863)			
Total primary government	\$ 2,196,756	\$ 781,238 \$	11,060	345,100	\$ (909,495)	(149,863) \$	(1,059,358)			
General revenues:										
General property taxes					\$ 437,388	\$ 2,637 \$	440,025			
Other local taxes: Local sales and use tax					162,571	_	162,571			
Consumers' utility tax					13,787	-	13,787			
Meals tax					79,131	-	79,131			
Vehicle decals					32,086	-	32,086			
Cigarette tax					20,717	-	20,717			
Business licenses					59,220	-	59,220			
Other local taxes					11,843	-	11,843			
Unrestricted revenues from use	of money and p	property			15,783	105,400	121,183			
Miscellaneous					10,503	17,867	28,370			
Grants and contributions not res	tricted to spec	ific programs	;		14,548		14,548			
Total general revenues					\$ 857,577	\$ 125,904 \$	983,481			
Change in net position					(51,918)	(23,959)	(75,877)			
Net position - beginning					3,793,410	7,657,733	11,451,143			
Net position - ending					\$ 3,741,492	7,633,774 \$	11,375,266			



Balance Sheet Governmental Fund As of June 30, 2014

	_	General
ASSETS		
Cash and cash equivalents (Note 1)	\$	1,158,257
Receivables (net of allowance for uncollectibles):		,,
Taxes receivable		508,706
Other local receivables		15,864
Interest receivable		11,738
Due from other funds		148,439
Due from other governmental units (Note 3)		30,824
Restricted assets:		
Cash and cash equivalents		1,607,640
Total assets	\$	3,481,468
LIABILITIES		
Accounts payable	\$	37,949
Accrued expenses		48,834
Total liabilities	\$	86,783
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	\$	508,857
FUND BALANCE		
Restricted:		
Construction- East Broad Streetscape Improvements	\$	1,557,446
Proffers - capital projects		50,194
Committed:		
Capital project - Loudoun St. improvements		81,910
Capital project - 27 N. Berlin		42,190
Capital project - County gas tax		30,000
Unassigned		1,124,088
Total fund balance	\$	2,885,828
Total liabilities, deferred inflows of resources, and fund balance	\$	3,481,468

Reconciliation of the Balance Sheet of Governmental Fund To the Statement of Net Position As of June 30, 2014

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund

\$ 2,885,828

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

2,744,691

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

Unavailable revenue related to property taxes

14,071

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

General obligation bonds	\$ (1,815,000)
Premium on bond issuance	(23,289)
Accrued interest payable	(32,734)
Compensated absences	(32,075) (1,903,098)

Net position of governmental activities

\$ 3,741,492

Statement of Revenues, Expenditures, and Change in Fund Balance Governmental Fund For the Year Ended June 30, 2014

		General
REVENUES		
General property taxes	\$	437,096
Other local taxes		379,355
Permits, privilege fees, and regulatory licenses		16,655
Revenue from the use of money and property		15,783
Charges for services		13,789
Miscellaneous		10,503
Intergovernmental:		
Commonwealth	_	25,608
Total revenues	\$	898,789
EXPENDITURES		
Current:		
General government administration	\$	515,476
Public safety		12,620
Public works		158,193
Parks, recreation, and cultural		38,200
Community development		19,413
Capital outlay		1,051,768
Debt service:		
Principal		75,000
Interest and other fiscal charges		77,681
Total expenditures	\$	1,948,351
Excess (deficiency) of revenues over		
(under) expenditures	\$	(1,049,562)
Net change in fund balance	\$	(1,049,562)
Fund balance - beginning		3,935,390
Fund balance - ending	\$	2,885,828

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

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

Net change in fund balances - total governmental funds

\$ (1,049,562)

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. Details supporting this adjustment are as follows:

Capital outlay \$ 957,527

Depreciation expense \$ (31,833) 925,694

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

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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal retired on general obligation bonds

75,000

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

(Increase)/decrease in premium on bond issuance1,664(Increase)/decrease in accrued interest payable1,375(Increase)/decrease in compensated absences(6,381)(3,342)

Change in net position of governmental activities

(51,918)

Statement of Net Position Proprietary Fund For the Year Ended June 30, 2014

		Enterprise Fund
	_	Water and Sewer Fund
ASSETS		
Current assets: Cash and cash equivalents Accounts receivables (net of allowances	\$	2,784,513
for uncollectibles): Restricted current assets:		145,173
Cash and cash equivalents	_	78,606
Total current assets	\$_	3,008,292
Noncurrent assets: Capital assets (net of accumulated depreciation): Land	\$	154 200
Utility system	Ф	154,200 9,184,462
Construction in progress	_	119,598
Total capital assets, net	\$_	9,458,260
Total noncurrent assets	\$_	9,458,260
Total assets	\$_	12,466,552
LIABILITIES		
Current liabilities:		
Accounts payable	\$	66,309
Accrued expenses		4,356
Due to other funds		148,439
Accrued interest payable		36,878
Customer deposits		91,747
Bonds payable, current portion		388,778
Compensated absences, current portion	_	268
Total current liabilities	\$_	736,775
Noncurrent liabilities:		
Bonds payable, net of current portion	\$	4,093,588
Compensated absences, net of current portion	_	2,415
Total noncurrent liabilities	\$_	4,096,003
Total liabilities	\$_	4,832,778
NET POSITION		
Net investment in capital assets Unrestricted	\$	4,975,894 2,657,880
Total net position	\$	7,633,774
·	-	
Total liabilities and net position	\$_	12,466,552

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

	E	Enterprise Fund			
		Water and Sewer Fund			
OPERATING REVENUES:					
Charges for services:					
Charges for services and connection fees	\$	750,794			
Frye court sewer district tax		2,637			
Miscellaneous		17,867			
Total operating revenues	\$	771,298			
OPERATING EXPENSES:					
Personnel services	\$	43,539			
Fringe benefits		6,872			
Contractual services/maintenance		384,044			
Materials and supplies		20,218			
Utilities		58,721			
Repairs and maintenance		197,966			
Other charges		11,878			
Depreciation		376,971			
Total operating expenses	\$	1,100,209			
Operating income (loss)	\$	(328,911)			
NONOPERATING REVENUES (EXPENSES):					
Interest income	\$	10,614			
Antennae lease		94,786			
Interest expense		(145,548)			
Total nonoperating revenues (expenses)	\$	(40,148)			
Income (loss) before contributions					
and transfers	\$	(369,059)			
Capital contributions and grants	\$	345,100			
Change in net position	\$	(23,959)			
Net position at beginning of year		7,657,733			
Net position at end of year	\$	7,633,774			

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

	_	Enterprise Fund
	_	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES: Receipts from customers and users Payments to suppliers Payments to and on behalf of employees	\$	853,762 (729,258) (49,988)
Net cash provided by (used for) operating activities	\$	74,516
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES: Purchase and construction of capital assets Capital contributions Repayment of long-term obligations Interest paid on long-term obligations	\$	(78,765) 345,100 (378,131) (147,797)
Net cash provided by (used for) capital and related financing activities	\$_	(259,593)
CASH FLOWS FROM INVESTING ACTIVITIES: Interest and dividends received	\$_	10,614
Net increase (decrease) in cash and cash equivalents	\$	(174,463)
Cash and cash equivalents - beginning	_	3,037,582
Cash and cash equivalents - ending	\$	2,863,119
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss) Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: Depreciation expense Antennae lease Changes in operating assets and liabilities: (Increase) decrease in account receivables	\$	(328,911) 376,971 94,786 (20,158)
Increase (decrease) in due to other funds Increase (decrease) in accounts payable Increase (decrease) in accrued expenses Increase (decrease) in customer deposits Increase (decrease) in compensated absences	_	(20,158) (764) (60,166) 3,735 8,600 423
Net cash provided by (used for) operating activities	\$	74,516

Notes to Financial Statements As of June 30, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for general purpose financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organizations governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Lovettsville, Virginia.

Individual Component Unit Disclosures

The Town has no component units.

Related Organizations

The Town has no related organizations.

Jointly Governed Organizations

The Town has no jointly governed organizations.

B. Government-wide and Fund Financial Statements

<u>Government-wide financial statements</u> - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

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, if applicable. 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 services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

<u>Statement of Net Position</u> - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units, if applicable. 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

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

B. Government-wide and Fund Financial Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by 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.

<u>Budgetary comparison schedules</u> - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results.

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

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

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

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

Notes to Financial Statements As of June 30, 2014 (Continued)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. 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. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

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

1. Governmental Funds account for and report the expendable financial resources, other than those accounted for in Proprietary and similar Trust Funds. The Governmental Fund measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The individual Governmental Funds are:

General Fund

The General Fund is the primary operating fund of the Town. The fund accounts for and reports all revenues and expenditures of the Town which are not accounted for and reported in other funds. The General Capital Fund is consolidated with the General Fund for financial reporting.

2. Proprietary Funds account for activities similar to those found in the private business sector. The measurement focus is upon determination of net income. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

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

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

Notes to Financial Statements As of June 30, 2014 (Continued)

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

D. <u>Budgets and Budgetary Accounting</u>

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.
- 2. Public hearings are conducted to obtain citizen comments.
- 3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- **4.** The Appropriations Resolution places legal restrictions on expenditures at the fund level. The appropriation for each fund can be revised only by the Town Council.
- 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) except that enterprise fund budgets are adopted on the modified accrual basis of accounting.
- 7. Appropriations lapse on June 30 for all Town units.
- 8. All budget data presented in the accompanying financial statements is as amended and approved by Town Council.
- **9.** Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less.

F. Investments

Investments are reported at fair market value. Certificates of deposit, money market mutual funds and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

Notes to Financial Statements As of June 30, 2014 (Continued)

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

G. Restricted Assets

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

H. Capital Assets

Capital assets, which include property, plant and equipment and insfrastructure, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, infrastructure, vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. 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 included in the capital assets of the government-wide statements or capitalized in the proprietary funds.

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. Interest attributable to capitalized assets for the year ended June 30, 2014 was immaterial.

Depreciation for capital assets is computed over the following useful lives using the straight line method.

Buildings	50 Years
Utility Plant & Lines	50 Years
Automobiles	5-7 Years
Machinery and Equipment	7-10 Years
Infrastructure	75 Years
Land Improvements	50 Years

Notes to Financial Statements As of June 30, 2014 (Continued)

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

I. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

J. Compensated Absences

Vested or accumulated vacation leave is reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be paid upon retirement, which is liquidated in the Town general fund. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25% of the unused balance.

K. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental and business-type activities. 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 and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

L. 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).

Notes to Financial Statements As of June 30, 2014 (Continued)

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

L. Receivables and Payables (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. At June 30, 2014 no allowance was recorded. At June 30, 2014 receivable balances were as follows:

Governmental Activities:

Local:	
Real estate taxes receivable	\$ 508,706
Other taxes receivable	15,864
Interest receivable	11,738
Total for Governmental Activities	\$ 536,308
Business-Type Activities:	
Local:	
Water billings	\$ 145,173

M. Property Taxes

Real property is assessed by Loudoun County, Virginia at its value on January 1 and is payable annually on December 5th. The Town does not collect a personal property tax. Taxes attach as an enforceable lien as of the date assessed. The Town bills and collects its own property taxes based on the assessed values provided by the County.

N. 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.

O. 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.

P. Net Position Flow Assumption

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

Notes to Financial Statements As of June 30, 2014 (Continued)

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

Q. Prepaid Items

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

R. 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.

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

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

S. Upcoming Pronouncements

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27. This Statement replaces the requirements of 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 As of June 30, 2014 (Continued)

NOTE 2-DEPOSITS AND INVESTMENTS:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Town does not have a formal investment policy.

Credit Risk of Debt Securities:

Sales tax

Total

The Town's rated debt investments as of June 30, 2014 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Town's Rated Debt Investments

	Rated Debt Investments Value		r Quality Ratings	
			AAAm	
	Wells Fargo Heritage Money Market Fund	\$ 1	1,557,446	
NOTE 3—DUE FROM	OTHER GOVERNMENTAL UNITS:			
	Commonwealth of Virginia:			
	Communications tax	\$	2,263	
	State fire program funds		1,000	
	Other		194	
	County of Loudoun:			

27,367

30,824

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 4—INTERFUND OBLIGATIONS:

Details of the Town's interfund receivables and payables as of June 30, 2014 are as follows:

Fund	 Due to	Due from
General Fund	\$ - \$	148,439
Water and Sewer Fund	148,439	-
Totals	\$ 148,439 \$	148,439

The above interfund obligations represent temporary advances between funds or amounts allocable to one fund and not yet transferred between the funds.

NOTE 5—CAPITAL ASSETS:

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

	_	Balance June 30, 2013		Additions	 Deletions	_	Balance June 30, 2014
Governmental Activities:							
Capital assets, not being depreciated: Land Construction in progress	\$	960,877 505,641	\$	- 951,277	\$ - 195,296	\$	960,877 1,261,622
Total capital assets, not being depreciated	\$_	1,466,518	\$	951,277	\$ 195,296	\$_	2,222,499
Capital assets, being depreciated: Buildings Land Improvements Machinery and equipment Infrastructure	\$	113,695 256,866 48,220 78,932	\$	6,250 195,296 - -	\$ - - - -	\$	119,945 452,162 48,220 78,932
Total capital assets being depreciated	\$_	497,713	\$	201,546	\$ -	\$_	699,259
Accumulated depreciation: Buildings Land Improvements Machinery and equipment Infrastructure	\$	(34,284) (48,085) (34,426) (28,439)		(3,513) (20,156) (4,961) (3,203)	- - - -	\$	(37,797) (68,241) (39,387) (31,642)
Total accumulated depreciation	\$_	(145,234)	\$	(31,833)	\$ _	\$_	(177,067)
Total capital assets, being depreciated, net	\$_	352,479	\$_	169,713	\$ -	\$_	522,192
Governmental activities capital assets, net	\$_	1,818,997	\$	1,120,990	\$ 195,296	\$_	2,744,691

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 5—CAPITAL ASSETS: (CONTINUED)

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

		Balance June 30,				Balance June 30,
		2013	 Additions	 Deletions	_	2014
Business-type Activities:						
Capital assets, not being depreciated: Land Construction in progress	\$	154,200 97,645	\$ - 21,953	\$ - -	\$	154,200 119,598
Total capital assets, not being depreciated	\$_	251,845	\$ 21,953	\$ -	\$_	273,798
Capital assets, being depreciated: Utility system	\$_	13,068,990	\$ 56,812	\$ -	\$_	13,125,802
Total capital assets being depreciated	\$_	13,068,990	\$ 56,812	\$ 	\$_	13,125,802
Accumulated depreciation: Utility system	\$_	(3,564,369)	\$ (376,971)	\$ -	\$_	(3,941,340)
Total accumulated depreciation	\$_	(3,564,369)	\$ (376,971)	\$ -	\$_	(3,941,340)
Total capital assets, being depreciated, net	\$_	9,504,621	\$ (320,159)	\$ -	\$_	9,184,462
Business-type activities capital assets, net	\$_	9,756,466	\$ (298,206)	\$ -	\$_	9,458,260

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

Governmental activities:	
General government administration	\$ 22,258
Public works	 9,575
Total depreciation expense - governmental activities	\$ 31,833
Business-type activities:	
Water and sewer fund	\$ 376,971
Total depreciation expense - business-type activities	\$ 376,971

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 6—OPERATING LEASES:

The Town has operating leases with various companies for communication equipment on the water tank. Future minimum lease payment receipts are as follows:

Year Ending		
June 30,	_	Amount
	-	_
2015	\$	69,888
2016		72,683
2017		75,591
2018		78,614
2019	_	81,759
Total	\$	378,535

NOTE 7—LONG-TERM OBLIGATIONS:

Governmental Activities:

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

	_	Balance July 1, 2013	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2014
General Obligation Bonds	\$	1,890,000 \$	- \$	(75,000) \$	1,815,000
Premium on Bond Issuance		24,953	-	(1,664)	23,289
Compensated Absences (Note 8)	_	25,694	6,381		32,075
Total	\$_	1,940,647 \$	6,381 \$	(76,664) \$	1,870,364

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 7-LONG-TERM OBLIGATIONS: (CONTINUED)

Governmental Activities: (Continued)

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

Year Ending		
June 30,	 Principal	Interest
2015	\$ 75,000 \$	89,643
2016	80,000	85,631
2017	85,000	82,351
2018	85,000	78,866
2019	90,000	26,083
2020-2024	510,000	318,826
2025-2029	605,000	192,944
2030-2031	 285,000	28,212
Total	\$ 1,815,000 \$	902,556

Details of Long-term Obligations:

General Obligation Bonds:	_	Total Amount	-	Amount Due Within One Year
\$2,025,000 General obligation bonds issued December 7, 2010 payable in annual principal payments ranging from \$65,000 to \$145,000 and semi-annual interest payments ranging from 3% to 6.561% with final payment due February 1, 2031.	\$_	1,815,000	\$_	75,000
Total general obligation bonds	\$_	1,815,000	\$_	75,000
Premium on bond issuance	\$	23,289	\$	1,664
Compensated absences (Note 8)	\$_	32,075	\$_	3,208
Total governmental activities obligations	\$	1,870,364	\$_	79,872

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 7-LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities:

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

	_	Balance July 1, 2013	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2014
General Obligation Bonds	\$	4,860,497 \$	- :	\$ (378,131) \$	4,482,366
Compensated Absences (Note 8)	_	2,260	423		2,683
Total	\$_	4,862,757 \$	423	\$(378,131)_\$	4,485,049

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

Year Ending June 30,	_	Principal	Interest
2015	\$	388,778 \$	139,986
2016		394,448	131,201
2017		400,140	122,123
2018		410,856	123,011
2019		376,595	
2020-2024		1,376,125	419,298
2025-2029		1,102,802	157,417
2030		32,622	2,801
	_		
Total	\$_	4,482,366 \$	1,095,837

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type Activities: (Continued)

Details of Long-term Obligations:

		Total Amount		Amount Due Within One Year
General Obligation Bonds:			-	
\$3,499,572 Virginia Resource Authority bonds issued December 21, 1999 payable in semi-annual installments of \$91,980 bearing no interest. Final payment due October 1, 2020.	\$	1,195,739	\$	183,959
\$515,000 Virginia Resource Authority bonds issued May 21, 2003 payable in annual installments ranging from \$25,000 to \$45,000. Interest ranging from 3.1% to 4.1% payable in semi-annual installments. Final payment due April 1, 2018.		165,000		40,000
\$3,450,000 Virginia Resource Authority bond issued May 23, 2007 payable in annual installments ranging from \$110,000 to \$255,000. Interest ranging from 4.1% to 4.875% payable in semi-annual installments. Final payment due October 1, 2027.		2,710,000		145,000
\$492,040 Virginia Resource Authority bond issued October 23, 2009 payable in semi-annual installments of \$17,284 bearing interest at 3.35%. Final payment due March 1, 2030. At June 30, 2011 only \$467,283 of this loan had been received.	_	411,627	_	19,819
Total general obligation bonds	\$_	4,482,366	\$	388,778
Compensated absences (Note 8)	\$_	2,683	\$	268
Total business-type activities	\$_	4,485,049	\$	389,046

NOTE 8-COMPENSATED ABSENCES:

In accordance with GASB Statement 16 Accounting for Compensated Absences, the Town has accrued liabilities arising from compensated absences.

Town employees earn annual leave at various rates. Sick leave is paid upon separation of employment with the Town up to an amount equal to 25% of the unused balance. Accumulated vacation and banked holidays are paid upon termination up to a maximum of 240 hours. The Town's general fund has outstanding accrued leave pay totaling \$32,075 and the Enterprise Fund has outstanding accrued leave pay of \$2,683.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 9—DEFERRED/UNAVAILABLE REVENUE:

Deferred/unavailable revenue represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available.

<u>Deferred/Unavailable Property Tax Revenue</u> - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$508,377 (including 2nd half tax billings of \$494,306 not due until December 5) at June 30, 2014.

<u>Prepaid Property Taxes</u> - Property taxes due subsequent to June 30, 2014 but paid in advance by the taxpayers totaled \$480 at June 30, 2014.

NOTE 10-RISK MANAGEMENT:

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

The Town continues to carry commercial insurance for all other risks of loss, including general liability and employee health and accident insurance, through the Virginia Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11-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:

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

VRS - PLAN 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.

- 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

VRS - PLAN 1 (CONTINUED)

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.
- 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

VRS - PLAN 1 (CONTINUED)

- 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.
- 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11-PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

VRS - PLAN 2 (CONTINUED)

- 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.
- 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

VRS - PLAN 2 (CONTINUED)

- 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.

HYBRID RETIREMENT PLAN

- 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

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

- 2. Eligible Members (Continued)
 - 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.

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

<u>Defined Benefit Component</u> - 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.

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

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

6. Vesting

<u>Defined Benefit Component</u> - 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.

<u>Defined Contribution Component</u> - 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.

7. Calculating the Benefit

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

<u>Defined Contribution Component</u> - 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

10. Normal Retirement Age

<u>Defined Benefit Component</u> - Same as VRS Plan 2-Refer to Section 10.

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

11. Earliest Unreduced Retirement Eligibility

<u>Defined Benefit Component</u> - 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.

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

12. Earliest Reduced Retirement Eligibility

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

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

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

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

<u>Defined Contribution Component</u> - 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.

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11-PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

17. Purchase of Prior Service

<u>Defined Benefit Component</u> - Same as VRS Plan 1 and VRS Plan 2-Refer to Section 17.

<u>Defined Contribution Component</u> - 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.

B. Funding Policy

Plan members are required by Title 51.1 of the <u>Code of Virginia</u> (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 <u>Code of Virginia</u> and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was 7.45% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2014, Town's annual pension cost of \$23,007 was equal to the Town's required and actual contributions.

Three-Year Trend Information

Fiscal		Annual	Percentage	Net		
Year		Pension	of APC	Pension		
Ending		Cost (APC)	Contributed	Obligation		
June 30, 2012	\$	4,163	100% \$	-		
June 30, 2013		30,851	100%	-		
June 30, 2014		23,007	100%	-		

Notes to Financial Statements As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

C. Annual Pension Cost: (Continued)

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.

D. Funding Status and Progress

As of June 30, 2013, the most recent actuarial valuation date, the Town's plan was 118.69% funded. The actuarial accrued liability for benefits was \$51,952, and the actuarial value of assets was \$61,660, resulting in an overfunded actuarial accrued liability (UAAL) of \$9,708. The covered payroll (annual payroll of active employees covered by the plan) was \$293,139 and ratio of the UAAL to the covered payroll was -3.31%.

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

NOTE 12—LITIGATION:

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

Required Supplementary Information

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

Schedule of Revenues, Expenditures, and Change in Fund Balance- Budget and Actual- General Fund For the Year Ended June 30, 2014

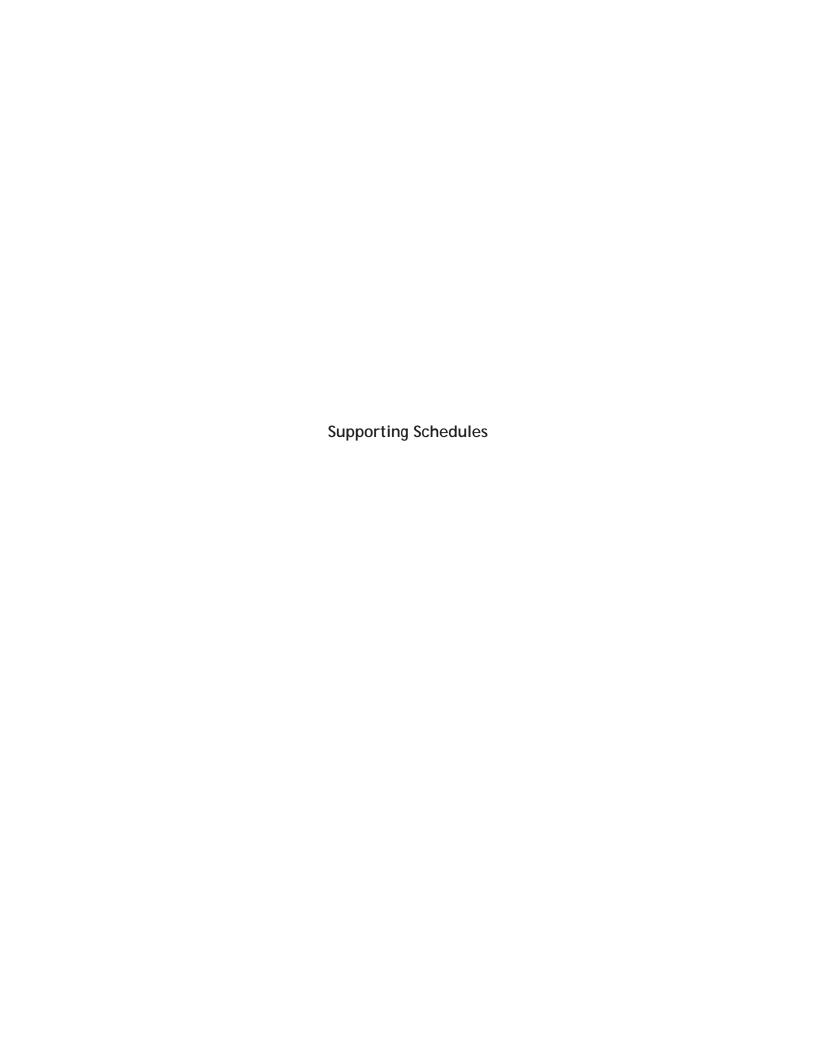
	General Fund							
	_	Original Budget	Final Budget		Actual		Variance Favorable (Unfavorable)	
REVENUES:								
General property taxes	\$	419,000 \$	419,000	\$	437,096	\$	18,096	
Other local taxes/revenues		336,400	336,400		379,355		42,955	
Permits, privilege fees, and regulatory licenses		12,100	12,100		16,655		4,555	
Revenues from use of money and property		15,275	15,275		15,783		508	
Charges for services		8,175	8,175		13,789		5,614	
Miscellaneous revenues		3,000	3,000		10,503		7,503	
Intergovernmental:								
Commonwealth	_	22,800	22,800	_	25,608		2,808	
Total Revenues	\$_	816,750 \$	816,750	\$_	898,789	\$	82,039	
EXPENDITURES:								
Current:								
General government administration	\$	487,562 \$	487,562	\$	515,476	\$	(27,914)	
Public safety		10,500	10,500		12,620		(2,120)	
Public works		151,280	151,280		158,193		(6,913)	
Parks, recreation, and cultural		33,500	33,500		38,200		(4,700)	
Community development		20,750	20,750		19,413		1,337	
Capital outlay		1,507,000	1,507,000		1,051,768		455,232	
Debt service:								
Principal		75,000	75,000		75,000		-	
Interest and other fiscal charges	_	76,309	76,309	_	77,681		(1,372)	
Total Expenditures	\$_	2,361,901 \$	2,361,901	\$	1,948,351	\$	413,550	
Excess (deficiency) of revenues over								
(under) expenditures	\$	(1,545,151) \$	(1,545,151)	\$_	(1,049,562)	\$	495,589	
Net change in fund balances	\$	(1,545,151) \$	(1,545,151)	\$	(1,049,562)	\$	495,589	
Fund Balance at Beginning of Year	_	1,545,151	1,545,151	_	3,935,390		2,390,239	
Fund Balance at End of Year	\$_	\$		\$_	2,885,828	\$	2,885,828	

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

Virginia Retirement System Schedule of Pension Funding Progress For the Year Ended June 30, 2014

Actuarial Valuation Date	 Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b) (d)	Annual Covered Payroll (e)	UAAL as % of Covered Payroll (c/e)
06/30/12	\$ 7,425 \$	- \$	(7,425)	N/A	229,409	(3.24%)
06/30/13	61,660	51,952	(9,708)	118.69%	293,139	(3.31%)





Schedule of Revenues - Budget and Actual Governmental Fund For the Year Ended June 30, 2014

Fund, Major and Minor Revenue Source		Original Budget	Final Budget		Actual		ariance with inal Budget - Positive (Negative)
General Fund: Revenue from local sources:							
General property taxes:							
Real property taxes	\$	416,500 \$		\$	436,077	\$	19,577
Penalties and interest	_	2,500	2,500		1,019		(1,481)
Total general property taxes	\$ <u></u>	419,000 \$	419,000	_\$	437,096	\$	18,096
Other local taxes/revenues: Local sales and use taxes Consumers' utility taxes	\$	165,000 \$ 13,400	13,400	\$	162,571 13,787 20,717	\$	(2,429) 387 2,717
Cigarette tax Motor vehicle licenses		18,000 26,500	18,000 26,500		32,086		2,717 5,586
Bank franchise taxes		8,500	8,500		11,843		3,343
Meals tax		65,000	65,000		79,131		14,131
Business License		40,000	40,000		59,220		19,220
Total other local taxes	\$	336,400 \$	336,400	\$	379,355	\$	42,955
Permits, privilege fees, and regulatory licenses:							
Planning and development fees	\$	11,400 \$	11,400	\$	16,655	\$	5,255
Conditional use permits	_	700	700		-		(700)
Total permits, privilege fees, and regulatory licenses	\$	12,100 \$	12,100	\$	16,655	\$	4,555
Revenue from use of money and property: Revenue from use of money	\$	15,275 \$	15,275	\$	15,783	\$	508
Charges for services: Miscellaneous	\$	8,175 \$	8,175	\$	13,789	\$	5,614
Miscellaneous revenue:							
Paver donations	\$	- \$	-	\$	4,825	\$	4,825
Miscellaneous		3,000	3,000		5,678		2,678
Total miscellaneous revenue	\$	3,000 \$	3,000	\$	10,503	\$	7,503
Total revenue from local sources	\$	793,950 \$	793,950	\$	873,181	\$	79,231
Intergovernmental: Revenue from the Commonwealth: Noncategorical aid: Rolling stock tax	\$	- \$	-	\$	215	\$	215
Communication taxes		13,800	13,800		13,431		(369)
Motor vehicle carriers' tax		<u> </u>	-	_	902		902
Total noncategorical aid	\$	13,800 \$	13,800	\$	14,548	\$	748
Categorical aid: Fire Program Grants Litter Control Grant	\$	8,000 \$ 1,000	8,000 1,000	\$	10,000 1,060	\$	2,000 60
Total categorical aid	\$	9,000 \$	9,000	\$	11,060	\$	2,060
Total revenue from the Commonwealth	\$	22,800 \$	22,800		25,608		2,808
Total General Fund	\$	816,750 \$			898,789		82,039
	· -			-		-	
Total Primary Government	\$	816,750 \$	816,750	• ₂ =	898,789	• • =	82,039

Schedule of Expenditures - Budget and Actual Governmental Fund For the Year Ended June 30, 2014

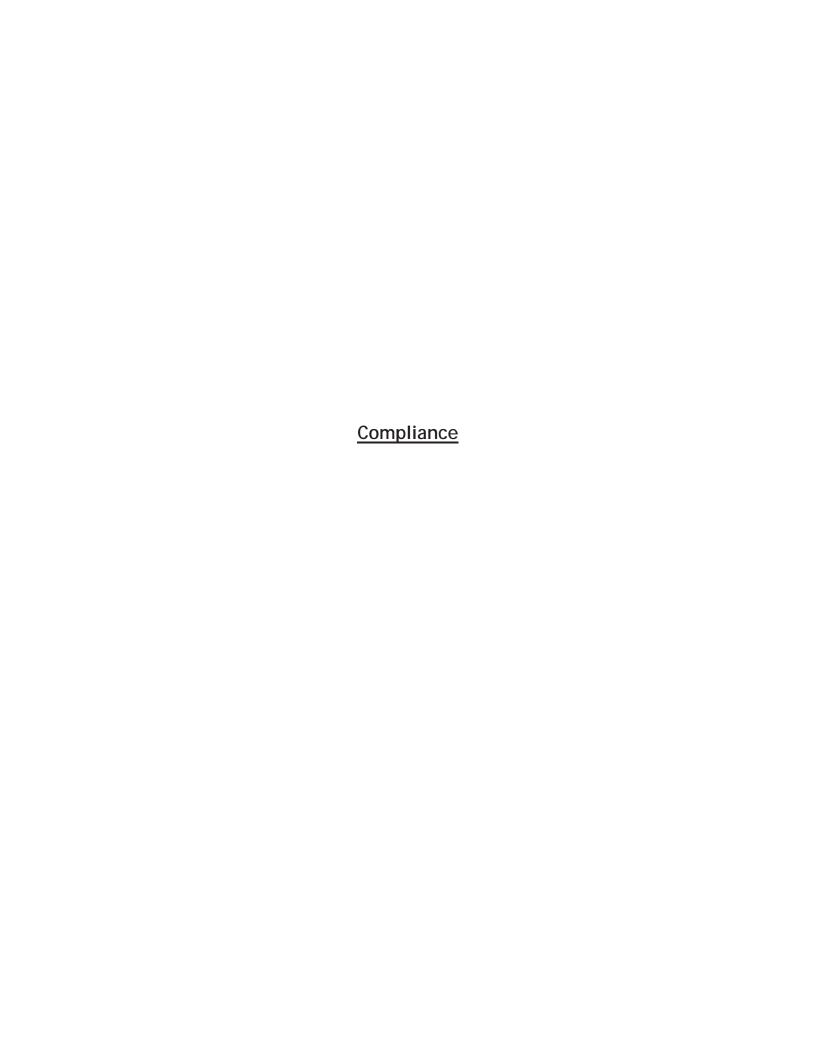
Total Primary Government

Fund, Function, Activity, and Elements		Original Budget		Final Budget		Actual		Variance with Final Budget - Positive (Negative)
General Fund:								
General government administration:								
Legislative: Legislative, general, and financial administration	\$	487,562	\$	487,562	\$_	515,476	\$_	(27,914)
Public safety:								
Law enforcement and traffic control:								
Police department	\$	500	\$_	500	\$_	620	_\$_	(120)
Fire and rescue services:								
Volunteer fire department contributions and funding	\$	10,000	\$	10,000	\$_	12,000	\$_	(2,000)
Total public safety	\$	10,500	\$_	10,500	\$_	12,620	\$_	(2,120)
Public works:								
General properties	\$	151,280	\$	151,280	\$_	158,193	\$_	(6,913)
Parks, recreation and cultural:								
Parks and recreation	\$	33,500	\$	33,500	\$_	38,200	\$_	(4,700)
Community development:								
Planning and community development	\$	20,750	\$	20,750	\$	19,413	\$_	1,337
Capital expenditures:								
Capital outlay	\$	1,507,000	\$	1,507,000	\$	1,051,768	\$_	455,232
Debt service:								
Principal	\$	75,000	\$	75,000	\$	75,000	\$	_
Interest and other fiscal charges	Ψ	76,309	Ψ	76,309	Ψ	77,681	Ψ	(1,372)
Total Debt Service	\$	151,309	\$	151,309	\$	152,681	\$	(1,372)
								<u> </u>
Total General Fund	\$	2,361,901	\$_	2,361,901	\$	1,948,351	\$_	413,550

2,361,901 \$

2,361,901 \$ 1,948,351 \$

413,550



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 Lovettsville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lovettsville, 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 Lovettsville, Virginia's basic financial statements and have issued our report thereon dated December 29, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies (2014:001 and 2014:002) described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Lovettsville, 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*.

Town of Lovettsville, Virginia's Response to Findings

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

Purpose of this Report

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

Mobinson, farm, Cos Associates Charlottesville, Virginia

December 29, 2014

Schedule of Findings and Responses For the Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Significant deficiency(ies) identified?

None reported

Noncompliance material to financial statements noted?

Section II - Financial Statement Findings

Repeat of Prior Year Findings:

2014:001

Criteria: A key concept of internal controls is the segregation of duties. No one employee should

have access to both accounting records and related assets.

Condition: The Town's current internal control system does not provide adequate segregation of

duties over accounting functions.

Effect of Condition: There is more than a remote likelihood that a material misstatement of the financial

statements will not be prevented or detected by the Town's internal controls over

financial reporting.

Cause of Condition: One employee is responsible for initiating, recording, and posting all transactions.

Recommendation: It is recommended that the Town assign accounting duties to separate employees.

Management's response: Management routinely evaluates internal controls and the segregation of duties. As

necessary, Management implements controls to mitigate risks where the cost does not outweigh the benefits. Moreover, Town Council and Officials actively participate in

the Town's financial operations.

Schedule of Findings and Responses For the Year Ended June 30, 2014

Section II - Financial Statement Findings: (Continued)

2014:002

Criteria: The preparation of financial statements in conformity with accounting principles

generally accepted in the United States of America requires an adequate level of

technical expertise.

Condition: The Town currently lacks sufficient internal controls over the preparation of the

financial statements to ensure the financial statements are prepared in conformity

with accounting principles generally accepted in the United States of America.

Effect of Condition: There is more than a remote likelihood that a material misstatement of the financial

statements will not be prevented or detected by the Town's internal controls over

financial reporting.

Cause of Condition: Town staff do not have the skill, nor does the Town utilize a third-party consultant, to

provide adequate internal controls over financial statement preparation to ensure the

information provided for audit is accurate.

Recommendation: It is recommended that Town staff obtain additional technical training or a third-party

consultant is used to ensure the preparation of financial statements free of material

misstatement.

Management's response: Management is cognizant of this weakness and has evaluated the costs and benefits of

additional controls. Presently, Management accepts the weakness of controls over the preparation of financial statements. Furthermore, Management reviews and approves

the financial statements prepared by the auditors.