

**TOWN OF MONTROSS, VIRGINIA**

**FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2014**

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**TOWN OF MONTROSS, VIRGINIA**

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**TOWN COUNCIL**

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R. David O'Dell, Jr. Mayor

Joseph P. King, Vice-Mayor

Terry A. Cosgrove

Robert A. Zimmerman

Ferdie F. Chandler

Larry W. Wheaton

Clinton A. Watson, Jr.

**OFFICIAL**

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Brenda T. Reamy, Town Manager

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## TOWN OF MONTROSS, VIRGINIA

Financial Report  
Year Ended June 30, 2014

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## TOWN OF MONTROSS, VIRGINIA

Financial Report  
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 MONTROSS, VIRGINIA  
MONTROSS, 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 Montross, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Town of Montross, 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 4-9, 44-45, 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 Montross, 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 March 26, 2015, on our consideration of Town of Montross, 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 Montross, Virginia's internal control over financial reporting and compliance.

*Robinson, Farmer, Cox Associates*

Fredericksburg, Virginia  
March 26, 2015

TOWN OF MONTROSS, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS

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To the Citizens of Montross  
Town of Montross, Virginia

As management of Town of Montross, Virginia, 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.

**Financial Highlights**

**Government-wide Financial Statements**

- On a government-wide basis for governmental activities, the assets and deferred outflows or resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$951,060 (net position). For business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$836,785.

**Fund Financial Statements**

The Governmental Funds, on a current financial resources measurement focus, reported revenues and other financing sources in excess of expenditures and other financing uses by \$32,361 (Exhibit 5).

- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balances of \$782,207, an increase of \$32,361, in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$89,056, or 56% of total general fund expenditures.
- Combined long-term obligations for the governmental funds decreased \$806 during the current fiscal year.

The Proprietary Funds, on an accrual basis, reported expenses in excess of revenues and other items by \$4,245 (Exhibit 8).

- As of the close of the current fiscal year, the Town's proprietary funds reported ending net position of \$836,785, an increase of \$4,245.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to financial statements.

This report also contains required and other supplementary information in addition to the basic financial statements themselves.



## Overview of the Financial Statements (Continued)

Government-wide financial statements - The government-wide financial statements are designed to provide 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 and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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 the 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).

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, police protection, sanitation, and cultural events.

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. Town of Montross, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental Funds are used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. Whereas the government-wide financial statements are prepared on the accrual basis of accounting, the governmental fund financial statements are prepared on the modified accrual basis of accounting. The focus of modified accrual reporting is on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Since the governmental funds focus is narrower than that of the government-wide financial statements, reconciliation between the two methods is provided after the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance. The Town's major governmental funds are the General Fund, Special Revenue Fund, and the Capital Projects Fund.

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

Notes to 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.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and the schedule of pension funding progress as well as other supplementary information for budgetary supporting schedules.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. In the case of the Town's governmental activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$951,060 at the close of the most recent fiscal year. This is an increase of \$31,985 over the prior year amount of \$919,075.

### Summary Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 783,228	\$ 751,373	\$ 773,279	\$ 761,246	\$ 1,556,507	\$ 1,512,619
Capital assets	178,444	179,626	74,986	80,216	253,430	259,842
Total assets	\$ 961,672	\$ 930,999	\$ 848,265	\$ 841,462	\$ 1,809,937	\$ 1,772,461
Current liabilities	\$ 1,021	\$ 1,527	\$ 11,480	\$ 8,922	\$ 12,501	\$ 10,449
Long-term liabilities	9,591	10,397	-	-	9,591	10,397
Total liabilities	\$ 10,612	\$ 11,924	\$ 11,480	\$ 8,922	\$ 22,092	\$ 20,846
Net position:						
Investment in capital assets	\$ 178,444	\$ 179,626	\$ 74,986	\$ 80,216	\$ 253,430	\$ 259,842
Unrestricted	772,616	739,449	761,799	752,324	1,534,415	1,491,773
Total net position	\$ 951,060	\$ 919,075	\$ 836,785	\$ 832,540	\$ 1,787,845	\$ 1,751,615

At the end of the current fiscal year, the Town's investment in capital assets represents 14% of total net position. The Town uses these capital assets to provide services to citizens; therefore, 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.

The Town's total net position increased by \$36,230 during the current fiscal year.

## Government-wide Financial Analysis (Continued)

Governmental Activities - Governmental activities increased the Town's net position by \$31,985 and business-type activities increased the Town's net position by \$4,245 for a total effect of a \$36,230 increase. Key elements of this increase are as follows:

Town of Montross, Virginia's Net Position Summary Statement of Change in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 350	800	\$ 141,184	\$ 144,485	\$ 141,534	\$ 145,285
Operating grants and contributions	18,464	16,607	-	-	18,464	16,607
Capital grants and contributions	96,052	-	-	-	96,052	-
General revenues:						
General property taxes	22,542	22,526	-	-	22,542	22,526
Bank franchise taxes	75,063	76,059	-	-	75,063	76,059
Local sales and use taxes	18,572	18,382	-	-	18,572	18,382
Consumer utility taxes	14,763	14,847	-	-	14,763	14,847
Other local taxes	14,975	15,886	-	-	14,975	15,886
Use of money and property	14,152	13,911	16,908	18,563	31,060	32,474
Miscellaneous	4,140	5,715	1,034	1,145	5,174	6,860
Grants and contributions not restricted to specific programs	14,025	14,267	-	-	14,025	14,267
Total revenues	\$ 293,098	\$ 199,000	\$ 159,126	\$ 164,193	\$ 452,224	\$ 363,193
Expenses:						
General government administration	\$ 131,883	\$ 128,780	\$ -	\$ -	\$ 131,883	\$ 128,780
Public safety	18,686	17,117	-	-	18,686	17,117
Public works	11,443	12,409	-	-	11,443	12,409
Community development	99,101	9,976	-	-	99,101	9,976
Water and Sanitation	-	-	154,881	151,428	154,881	151,428
Total expenses	\$ 261,113	\$ 168,282	\$ 154,881	\$ 151,428	\$ 415,994	\$ 319,710
Increase in net position	\$ 31,985	\$ 30,718	\$ 4,245	\$ 12,765	\$ 36,230	\$ 43,483
Net position, beginning	919,075	888,357	832,540	819,775	1,751,615	1,708,132
Net position, ending	\$ 951,060	\$ 919,075	\$ 836,785	\$ 832,540	\$ 1,787,845	\$ 1,751,615

## Government-wide Financial Analysis (Continued)

- The increase in the governmental activities net position was caused by revenues outpacing expenses in the current year.

For the most part, increases in expenditures closely paralleled inflation and growth in the demand for services.

## Financial Analysis of the Town's Funds

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

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

At the end of the current fiscal year, the Town's governmental funds reported fund balances of \$782,207, an increase of \$32,361 in comparison with the prior year. Approximately 11% of this total amount constitutes unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is reflected as committed or assigned as appropriate to indicate that it is not available for new spending.

Proprietary Funds - The focus of the Town's proprietary funds is upon determination of net income, financial position, and changes in financial position. Funds are accounted for in a manner similar to private business enterprises. The Town's proprietary funds consist of the Water Fund and the Sanitation Fund. The proprietary funds net position increased by \$4,245.

## General Fund Budgetary Highlights

As there were no supplemental appropriations during the fiscal year, the original budget of \$865,886 did not change. Total expenditures budgeted for the Town can be briefly summarized as follows:

- \$129,725 for general government administration
- \$15,400 for public safety
- \$12,925 for public works
- \$4,750 for community development
- \$2,000 for capital outlay

## Capital Asset and Debt Administration

- Capital assets - The Town's investment in capital assets for its governmental activities as of June 30, 2014 amounts to \$178,444 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and office and other equipment. Investment in capital assets for the Town's business-type activities amounts to \$74,986 as of June 30, 2014. This investment includes land, water system, sewer system, and office and other equipment.

Additional information on the Town's capital assets can be found in Note 4 of this report.

Long-term obligations - At the end of the current fiscal year, the Town had total long-term obligations consisting solely of compensated absences of \$9,591.

Additional information on the Town of Montross, Virginia's long-term obligations can be found in Note 5 of this report.

## Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Westmoreland County, where the Town is located, is currently 6.1% percent, which is a decrease from a rate of 6.3% percent a year ago. This is higher than the Commonwealth's average unemployment rate of 4.8% percent and higher than the national average rate of 5.6% percent.
- Inflationary trends in the region compare a little higher to national indices.

All of these factors were considered in preparing the Town's budget for the 2015 fiscal year.

The fiscal year 2015 budget for the general fund amounted to \$195,075.

## Requests for Information

This financial report is designed to provide a general overview of the Town of Montross, Virginia's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, 15869 Kings Highway, Montross, Virginia 22520.

## **Basic Financial Statements**

*Government-wide Financial Statements*

Statement of Net Position  
As of June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 754,130	\$ 749,657	\$ 1,503,787
Receivables	5,687	13,687	19,374
Due from other governments	23,411	-	23,411
Inventory, at cost	-	9,935	9,935
<b>Capital assets:</b>			
Land	43,202	18,345	61,547
Construction in progress	6,728	-	6,728
Other capital assets, net of accumulated depreciation	128,514	56,641	185,155
Capital assets, net	\$ 178,444	\$ 74,986	\$ 253,430
Total assets	\$ 961,672	\$ 848,265	\$ 1,809,937
<b>Liabilities:</b>			
Accounts payable	\$ 962	\$ 8,930	\$ 9,892
Due to other governments	59	-	59
Customers deposits	-	2,550	2,550
<b>Long-term liabilities:</b>			
Due within one year	959	-	959
Due in more than one year	8,632	-	8,632
Total liabilities	\$ 10,612	\$ 11,480	\$ 22,092
<b>Net Position:</b>			
Investment in capital assets	\$ 178,444	\$ 74,986	\$ 253,430
Unrestricted	772,616	761,799	1,534,415
Total net position	\$ 951,060	\$ 836,785	\$ 1,787,845

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



TOWN OF MONTROSS, VIRGINIA

Statement of Activities  
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 131,883	\$ -	\$ -	\$ -
Public safety	18,686	-	17,404	-
Public works	11,443	350	1,060	-
Community development	99,101	-	-	96,052
Total governmental activities	\$ 261,113	\$ 350	\$ 18,464	\$ 96,052
Business-type activities:				
Water	\$ 81,747	\$ 66,462	\$ -	\$ -
Sanitation	73,134	74,722	-	-
Total business-type activities	\$ 154,881	\$ 141,184	\$ -	\$ -
Total primary government	\$ 415,994	\$ 141,534	\$ 18,464	\$ 96,052

General Revenues:

General real property taxes

Bank franchise taxes

Local sales and use taxes

Consumer utility taxes

Other local taxes

Unrestricted revenues from the use of money and property

Grants and contributions not restricted to specific programs

Miscellaneous

Total general revenues

Change in net position

Net position, beginning of year

Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
	Governmental Activities	Business-type Activities		Total
\$	(131,883)	\$ -	\$	(131,883)
	(1,282)	-		(1,282)
	(10,033)	-		(10,033)
	(3,049)	-		(3,049)
\$	<u>(146,247)</u>	<u>\$ -</u>	\$	<u>(146,247)</u>
\$	-	\$ (15,285)	\$	(15,285)
	-	1,588		1,588
\$	<u>-</u>	<u>\$ (13,697)</u>	\$	<u>(13,697)</u>
\$	<u>(146,247)</u>	<u>\$ (13,697)</u>	\$	<u>(159,944)</u>
\$	22,542	\$ -	\$	22,542
	75,063	-		75,063
	18,572	-		18,572
	14,763	-		14,763
	14,975	-		14,975
	14,152	16,908		31,060
	14,025	-		14,025
	4,140	1,034		5,174
\$	<u>178,232</u>	<u>\$ 17,942</u>	\$	<u>196,174</u>
\$	31,985	\$ 4,245	\$	36,230
	919,075	832,540		1,751,615
\$	<u>951,060</u>	<u>836,785</u>	\$	<u>1,787,845</u>

## **Fund Financial Statements**

Balance Sheet  
 Governmental Funds  
 As of June 30, 2014

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$ 744,087	\$ 7,091	\$ 2,952	\$ 754,130
Receivables:				
Taxes including penalties	253	-	-	253
Accounts	5,434	-	-	5,434
Due from other governments	3,363	-	20,048	23,411
Due from other funds	23,000	-	-	23,000
Total assets	<u>\$ 776,137</u>	<u>\$ 7,091</u>	<u>\$ 23,000</u>	<u>\$ 806,228</u>
<b>Liabilities:</b>				
Accounts payable	\$ 962	\$ -	\$ -	\$ 962
Due to other funds	-	-	23,000	23,000
Due to other governments	59	-	-	59
Total liabilities	<u>\$ 1,021</u>	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ 24,021</u>
<b>Fund Balance:</b>				
Committed:				
Festival	\$ -	\$ 7,091	\$ -	\$ 7,091
Assigned:				
Tower	110,895	-	-	110,895
Well #2	83,074	-	-	83,074
Well #1	83,180	-	-	83,180
Water system	334,047	-	-	334,047
Town code	23,632	-	-	23,632
Computer	5,007	-	-	5,007
Town hall	23,133	-	-	23,133
Comprehensive plan	20,218	-	-	20,218
Revitalization	2,874	-	-	2,874
Unassigned	89,056	-	-	89,056
Total fund balance	<u>\$ 775,116</u>	<u>\$ 7,091</u>	<u>\$ -</u>	<u>\$ 782,207</u>
Total liabilities and fund balance	<u>\$ 776,137</u>	<u>\$ 7,091</u>	<u>\$ 23,000</u>	<u>\$ 806,228</u>

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

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

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

Total fund balances for governmental funds (Exhibit 3)	\$ 782,207
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 43,202	
Construction in progress	6,728	
Other capital assets, net of accumulated depreciation	<u>128,514</u>	
Total capital assets		178,444

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences	<u>(9,591)</u>
Total net position of governmental activities	\$ <u><u>951,060</u></u>

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

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

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenues:				
General property taxes	\$ 22,542	\$ -	\$ -	\$ 22,542
Other local taxes	123,373	-	-	123,373
Permits, privilege fees and regulatory licenses	350	-	-	350
Revenue from use of money and property	14,152	-	-	14,152
Miscellaneous	214	3,926	-	4,140
Intergovernmental revenues:				
Commonwealth	32,489	-	-	32,489
Federal	-	-	96,052	96,052
Total revenues	\$ 193,120	\$ 3,926	\$ 96,052	\$ 293,098
Expenditures:				
Current:				
General government administration	\$ 126,496	\$ -	\$ -	\$ 126,496
Public safety	17,404	-	-	17,404
Public works	11,061	-	-	11,061
Community development	4,968	4,644	96,052	105,664
Capital outlay	112	-	-	112
Total expenditures	\$ 160,041	\$ 4,644	\$ 96,052	\$ 260,737
Excess (deficiency) of revenues over (under) expenditures	\$ 33,079	\$ (718)	\$ -	\$ 32,361
Net change in fund balances	\$ 33,079	\$ (718)	\$ -	\$ 32,361
Fund balances at beginning of year	742,037	7,809	-	749,846
Fund balances at end of year	\$ 775,116	\$ 7,091	\$ -	\$ 782,207

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

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

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Net change in fund balances - total governmental funds (Exhibit 5) \$ 32,361

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	6,840
Depreciation Expense	(7,988)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net position. (34)

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.

Change in compensated absences	<u>806</u>
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Change in net position of governmental activities	\$ <u><u>31,985</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Statement of Net Position  
 Proprietary Funds  
 As of June 30, 2014

	Business-type Activities		
	Water Fund	Sanitation Fund	Totals
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 732,139	\$ 17,518	\$ 749,657
Accounts Receivable	6,662	7,025	13,687
Inventory, at cost	9,935	-	9,935
Total current assets	\$ 748,736	\$ 24,543	\$ 773,279
Capital assets, net of accumulated depreciation	74,986	-	74,986
Total assets	<u>\$ 823,722</u>	<u>\$ 24,543</u>	<u>\$ 848,265</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	\$ 3,228	\$ 5,702	\$ 8,930
Customers deposits	2,550	-	2,550
Total liabilities	<u>\$ 5,778</u>	<u>\$ 5,702</u>	<u>\$ 11,480</u>
<b>Net Position:</b>			
Investment in capital assets	\$ 74,986	\$ -	\$ 74,986
Unrestricted	742,958	18,841	761,799
Total net position	<u>\$ 817,944</u>	<u>\$ 18,841</u>	<u>\$ 836,785</u>

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



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

	Business-type Activities		
	Water Fund	Sanitation Fund	Totals
Operating revenues:			
Charges for services	\$ 66,462	\$ 74,722	\$ 141,184
Operating expenses:			
Personnel services	\$ 15,506	\$ 3,600	\$ 19,106
Fringe benefits	2,082	505	2,587
Contractual services	8,248	67,994	76,242
Other charges	5,257	1,035	6,292
Materials and supplies	44,439	-	44,439
Depreciation	6,465	-	6,465
Total operating expenses	\$ 81,997	\$ 73,134	\$ 155,131
Operating income (loss)	\$ (15,535)	\$ 1,588	\$ (13,947)
Nonoperating revenues (expenses):			
Interest income	\$ 16,902	\$ 6	\$ 16,908
Gain (loss) on disposal of capital assets	250	-	250
Miscellaneous	1,034	-	1,034
Total nonoperating revenues	\$ 18,186	\$ 6	\$ 18,192
Change in net position	\$ 2,651	\$ 1,594	\$ 4,245
Net position, beginning of year	815,293	17,247	832,540
Net position, end of year	\$ 817,944	\$ 18,841	\$ 836,785

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

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

	Business-type Activities		
	Water Fund	Sanitation Fund	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 66,422	\$ 75,919	\$ 142,341
Payments to and for employees	(17,588)	(4,105)	(21,693)
Payments to suppliers	(54,655)	(68,972)	(123,627)
Net cash provided by (used for) operating activities	\$ (5,821)	\$ 2,842	\$ (2,979)
Cash flows from investing activities:			
Interest income	\$ 16,902	\$ 6	\$ 16,908
Cash flows from capital and related financing activities:			
Purchase of capital assets	\$ (1,235)	\$ -	\$ (1,235)
Disposal of capital assets	250	-	250
Net cash provided by (used for) capital and related financing activities	\$ (985)	\$ -	\$ (985)
Cash flows from noncapital financing activities:			
Miscellaneous income	\$ 1,034	\$ -	\$ 1,034
Net increase (decrease) in cash and cash equivalents	\$ 11,130	\$ 2,848	\$ 13,978
Cash and cash equivalents at beginning of year	721,009	14,670	735,679
Cash and cash equivalents at end of year	\$ 732,139	\$ 17,518	\$ 749,657
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (15,535)	\$ 1,588	\$ (13,947)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	6,465	-	6,465
Changes in operating accounts:			
Accounts receivable	110	1,197	1,307
Inventory	638	-	638
Accounts payable	2,651	57	2,708
Customer deposits	(150)	-	(150)
Net cash provided by (used for) operating activities	\$ (5,821)	\$ 2,842	\$ (2,979)

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

## TOWN OF MONTROSS, VIRGINIA

Notes to Financial Statements  
As of June 30, 2014

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### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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#### Narrative Profile:

Town of Montross, located in central Westmoreland County, Virginia, approximately 45 miles east of Fredericksburg, Virginia, was incorporated in 1852. The Town has a population of 315 and a land area of 1.02 square miles.

The Town is governed under the Council-Manager form of government. The Town government engages in wide ranges of municipal services including general government administration, public safety, public works, and community development. Judicial administration, education, fire, library, health and welfare services are provided by Westmoreland County.

The financial statements of Town of Montross, Virginia have been prepared in conformity with specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Town's accounting policies are described below.

#### A. Financial Reporting Entity

Management's Discussion and Analysis: GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

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

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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#### A. Financial Reporting Entity (Continued)

Statement of Activities: The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the 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).

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

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in 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. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons. The budgetary comparison schedules present the government's original budget to the current comparison of final budget and actual results for its major funds.

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

#### B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, community development, etc.) that 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, community development, etc.) or a business-type activity. 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, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities is allocated to the various functional expense categories based on the internal charges to each function.

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. The fund statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the governmental fund financial statements to the governmental column of the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Proprietary fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings and other revenues not directly derived from the providing of services.

The following is a brief description of the specific funds used by the Town in FY 2014.

1. *Governmental Funds* - Governmental Funds account for and report the expendable financial resources, other than those accounted for and reported in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Funds are:

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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

*General Fund* - The General Fund accounts for and reports all revenues and expenditures of the Town which are not accounted for and reported in the other funds. Revenues are primarily derived from general property taxes, other local taxes, licenses and permits, and revenues from other governmental units. The General Fund is considered a major fund for financial reporting purposes.

*Special Revenue Fund* - The Special Revenue Fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Special Revenue Funds consist of the Festival Fund, which is considered a major fund.

*Capital Projects Fund* - The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Capital Projects Fund is considered a major fund.

2. *Proprietary Funds* - Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

*Enterprise Funds* - Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. Enterprise Funds consist of the Water Fund and the Sanitation Fund.

#### C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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#### C. Basis of Accounting (Continued)

1. *Governmental Funds* - Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditure.

Expenditures, other than interest on long-term obligations, are recorded as the related fund liabilities are incurred. Principal and interest on long-term debt are recognized when due except for amounts due on July 1, which are accrued.

2. *Proprietary Funds* - The accrual basis of accounting is used for the Enterprise Fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

#### D. Budgets and Budgetary Accounting

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

1. Prior to May 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
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 department or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Administrator is authorized to transfer budgeted amounts within departments.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30 for all Town funds unless they are carried forward by a resolution of Town Council.
8. All budgetary data presented in the accompanying financial statements reflect budget reviews as of June 30.

#### E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include all cash on hand and in banks, certificates of deposit, and highly liquid investments with maturities of three months or less from the date of acquisition.

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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#### F. Receivables and Payables

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

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

#### G. Inventory

Inventories are reported at cost on a first-in, first-out basis.

#### H. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the Town, and as assets in the government-wide financial statements.

Property, plant and equipment purchases are stated at cost or estimated cost. Donated property is recorded at the prevailing market value at date of donation. Depreciation is recorded on capital assets on a government-wide basis or in the proprietary funds using the straight-line method and the following estimated useful lives:

Buildings and improvements	33.5 years
Water system	25 years
Office and other equipment	5-25 years
Vehicles	5 years

#### I. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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**J. Compensated Absences**

The Town accrues compensated absences (annual and sick leave benefits) when vested. The amounts include all balances earned by employees which would be paid upon employee terminations, resignations or retirements. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “terminal leave” prior to retirement.

An estimate of ten percent of the liability has been classified as current in the government-wide financial statements. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Position.

**K. 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 does not have any deferred inflows of resources as of June 30, 2014.

**L. 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

**M. 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.

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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**N. Fund Equity**

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

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

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of 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).

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 2—PROPERTY TAXES:

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Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable December 5th. The Town bills and collects its own property taxes. The Town does not record an allowance for uncollectible receivables as all receivables are deemed collectible.

### NOTE 3—DEPOSITS AND INVESTMENTS:

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#### 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 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 amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

#### Investments:

Statutes authorize 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 had no investments at June 30, 2014.

# TOWN OF MONTROSS, VIRGINIA

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

## NOTE 4—CAPITAL ASSETS:

The following is summary of changes in capital assets during the fiscal year:

### Governmental Activities:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 43,202	\$ -	\$ -	\$ 43,202
Construction in progress	-	6,728	-	6,728
Total capital assets not being depreciated	\$ 43,202	\$ 6,728	\$ -	\$ 49,930
Other capital assets:				
Buildings and improvements	\$ 233,501	\$ -	\$ -	\$ 233,501
Office and other equipment	46,064	112	877	45,299
Total other capital assets	\$ 279,565	\$ 112	\$ 877	\$ 278,800
Accumulated depreciation:				
Buildings and improvements	\$ 101,002	\$ 7,062	\$ -	\$ 108,064
Office and other equipment	42,139	926	843	42,222
Total accumulated depreciation	\$ 143,141	\$ 7,988	\$ 843	\$ 150,286
Other capital assets, net	\$ 136,424	\$ (7,876)	\$ 34	\$ 128,514
Net capital assets	\$ 179,626	\$ (1,148)	\$ 34	\$ 178,444

Depreciation expense has been allocated  
as follows:

General government administration	\$ 5,980
Public safety	1,495
Public works	348
Community development	165
Total depreciation expense	\$ 7,988

**TOWN OF MONTROSS, VIRGINIA**

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

**NOTE 4—CAPITAL ASSETS: (Continued)**

The following is summary of changes in capital assets during the fiscal year:

**Business-type Activities:**

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ <u>18,345</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>18,345</u>
Other capital assets:				
Water system	\$ 425,596	\$ 1,235	\$ 771	\$ 426,060
Vehicles	9,890	-	-	9,890
Office and other equipment	21,465	-	723	20,742
Total other capital assets	\$ <u>456,951</u>	\$ <u>1,235</u>	\$ <u>1,494</u>	\$ <u>456,692</u>
Accumulated depreciation:				
Water system	\$ 368,378	\$ 3,691	\$ 771	\$ 371,298
Vehicles	8,459	1,430	-	9,889
Office and other equipment	18,243	1,344	723	18,864
Total accumulated depreciation	\$ <u>395,080</u>	\$ <u>6,465</u>	\$ <u>1,494</u>	\$ <u>400,051</u>
Other capital assets, net	\$ <u>61,871</u>	\$ <u>(5,230)</u>	\$ <u>-</u>	\$ <u>56,641</u>
Net capital assets	\$ <u>80,216</u>	\$ <u>(5,230)</u>	\$ <u>-</u>	\$ <u>74,986</u>

Depreciation expense has been allocated  
as follows:  
    Water Fund

\$ 6,465

**NOTE 5—LONG TERM OBLIGATIONS:**

**Governmental Activities:**

The following is a summary of long-term obligations for the fiscal year ended June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$ <u>10,397</u>	\$ <u>234</u>	\$ <u>1,040</u>	\$ <u>9,591</u>	\$ <u>959</u>

## TOWN OF MONTROSS, VIRGINIA

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

### NOTE 6—COMPENSATED ABSENCES:

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, the Town has accrued the liability arising from compensated absences. Town employees earn vacation and sick leave based upon length of service. The Town has outstanding accrued vacation pay totaling \$9,591 in the General Fund.

### NOTE 7—PENSION PLAN:

#### A. Plan Description

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

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

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

#### VRS – PLAN 1

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

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

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

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

**NOTE 7—PENSION PLAN: (Continued)**

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**A. Plan Description (continued)**

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

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

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

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

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

**NOTE 7—PENSION PLAN: (Continued)**

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**A. Plan Description (continued)**

<b>VRS – PLAN 1 (CONTINUED)</b>
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**10. Normal Retirement Age - Age 65.**

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

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

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

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

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

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

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

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



NOTE 7—PENSION PLAN: (Continued)

A. Plan Description (continued)

**VRS – PLAN 1 (CONTINUED)**

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

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

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

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

**VRS – PLAN 2**

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

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

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

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

## TOWN OF MONTROSS, VIRGINIA

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

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### NOTE 7—PENSION PLAN: (Continued)

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#### A. Plan Description (continued)

<b>VRS – PLAN 2 (CONTINUED)</b>
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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.
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.

**NOTE 7—PENSION PLAN: (Continued)**

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**A. Plan Description (continued)**

**VRS – PLAN 2 (CONTINUED)**

- 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**

- 1. Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
- The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
  - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
  - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
- 2. Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
- State employees\*
  - School division employees
  - Political subdivision employees\*
  - Judges appointed or elected to an original term on or after January 1, 2014
  - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014

**NOTE 7—PENSION PLAN: (Continued)**

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**A. Plan Description (continued)**

<b>HYBRID RETIREMENT PLAN (CONTINUED)</b>
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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**

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

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

**NOTE 7—PENSION PLAN: (Continued)**

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**A. Plan Description (continued)**

<b>HYBRID RETIREMENT PLAN (CONTINUED)</b>
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**6. Vesting**

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

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

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

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

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

Distribution is not required by law until age 70½.

**7. Calculating the Benefit**

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

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

- 8. Average Final Compensation** - Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.
- 9. Service Retirement Multiplier** - The retirement multiplier is 1.0%.

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

TOWN OF MONTROSS, VIRGINIA

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

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**NOTE 7—PENSION PLAN: (Continued)**

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**A. Plan Description (continued)**

<b>HYBRID RETIREMENT PLAN (CONTINUED)</b>
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**10. Normal Retirement Age**

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

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

**11. Earliest Unreduced Retirement Eligibility**

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

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

**12. Earliest Reduced Retirement Eligibility**

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

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

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

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

Defined Contribution Component - Not Applicable.

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

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

## TOWN OF MONTROSS, VIRGINIA

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

### NOTE 7—PENSION PLAN: (Continued)

#### A. Plan Description (continued)

##### HYBRID RETIREMENT PLAN (CONTINUED)

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

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

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

#### **17. Purchase of Prior Service**

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

Defined Contribution Component - Not Applicable.

The system issues a publicly available comprehensive annual financial report (CAFR) 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 Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2014 was 5.32% of annual covered payroll

#### C. Annual Pension Cost

For fiscal year 2014, the Town's annual pension cost of \$4,853 (does not include the employee share assumed by the Town which was \$4,561) was equal to the Town's required and actual contributions.

## TOWN OF MONTROSS, VIRGINIA

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

### NOTE 7—PENSION PLAN: (Continued)

#### C. Annual Pension Cost (continued)

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) *</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 8,512	100%	\$ -
6/30/13	4,675	100%	-
6/30/14	4,853	100%	-

\* Includes employer contributions only

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

#### D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the Town's plan was 101.59% funded. The actuarial accrued liability for benefits was \$265,247, and the actuarial value of assets was \$269,473, resulting in an unfunded actuarial accrued liability (UAAL) of (\$4,226). The covered payroll (annual payroll of active employees covered by the plan) was \$87,876, and ratio of the UAAL to the covered payroll was (4.81%).

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.



## TOWN OF MONTROSS, VIRGINIA

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

### NOTE 8—SEGMENT INFORMATION:

The Town maintains two Enterprise Funds which provide water and sanitation services. Segment information for the year ended June 30, 2014 was as follows:

	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating revenues	\$ 66,462	\$ 74,722	\$ 141,184
Depreciation expense	6,465	-	6,465
Operating income (loss)	(15,535)	1,588	(13,947)
Net income (loss)	2,651	1,594	4,245
Net working capital	742,958	18,841	761,799
Total assets	823,722	24,543	848,265
Total net position	817,944	18,841	836,785

### NOTE 9—CONTINGENT LIABILITIES:

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 the Town.

### NOTE 10—SURETY BONDS:

	<u>Amount</u>
Selective Insurance Company-Surety:	
Brenda T. Reamy, Town Manager	\$ 10,000

### NOTE 11—EXPENDITURES IN EXCESS OF APPROPRIATIONS:

<u>Fund</u>	<u>Appropriations</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public Safety	\$ 15,400	\$ 17,404	\$ (2,004)
Community Development	4,750	4,968	(218)

## TOWN OF MONTROSS, VIRGINIA

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

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### **NOTE 12—UPCOMING GASB PRONOUNCEMENTS:**

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At June 30, 2014, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Town. The statement which might impact the Town are as follows:

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 believes the implementation of Statement No. 68 could significantly impact the Town's net position; however, no formal study or estimate of the impact of this standard has been performed.

### **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.

## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues:</b>				
General property taxes	\$ 22,525	\$ 22,525	\$ 22,542	\$ 17
Other local taxes	120,700	120,700	123,373	2,673
Permits, privilege fees and regulatory licenses	300	300	350	50
Revenue from use of money and property	12,500	12,500	14,152	1,652
Miscellaneous	300	300	214	(86)
Intergovernmental revenues:				
Commonwealth	31,000	31,000	32,489	1,489
Total revenues	\$ 187,325	\$ 187,325	\$ 193,120	\$ 5,795
<b>Expenditures:</b>				
Current:				
General government administration				
Legislative	\$ 1,600	\$ 1,600	\$ 1,600	\$ -
General and financial administration	127,225	127,225	123,685	3,540
Town elections	900	900	1,211	(311)
Total general government administration	\$ 129,725	\$ 129,725	\$ 126,496	\$ 3,229
Public safety:				
Law Enforcement	\$ 7,400	\$ 7,400	\$ 7,404	\$ (4)
Fire Department Funds	8,000	8,000	10,000	(2,000)
Total public safety	\$ 15,400	\$ 15,400	\$ 17,404	\$ (2,004)
Public works:				
Maintenance of streets, parking lots, and street lights	\$ 8,325	\$ 8,325	\$ 7,733	\$ 592
Town Revitalization	1,000	1,000	-	1,000
Maintenance of buildings and grounds	3,600	3,600	3,328	272
Total public works	\$ 12,925	\$ 12,925	\$ 11,061	\$ 1,864
Community development:				
Contributions	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Christmas lights and decorations	750	750	968	(218)
Total community development	\$ 4,750	\$ 4,750	\$ 4,968	\$ (218)
Capital outlay:				
Purchase of capital assets	\$ 2,000	\$ 2,000	\$ 112	\$ 1,888
Total expenditures	\$ 164,800	\$ 164,800	\$ 160,041	\$ 4,759
Excess (deficiency) of revenues over (under) expenditures	\$ 22,525	\$ 22,525	\$ 33,079	\$ 10,554
Net change in fund balances	\$ 22,525	\$ 22,525	\$ 33,079	\$ 10,554
Fund balances at beginning of year	(22,525)	(22,525)	742,037	764,562
Fund balances at end of year	\$ -	\$ -	\$ 775,116	\$ 775,116

## Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Miscellaneous	\$ 5,000	\$ 5,000	\$ 3,926	\$ (1,074)
Expenditures:				
Current:				
Community development:				
Supplies and services	\$ 5,000	\$ 5,000	\$ 4,644	\$ 356
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (718)	\$ (718)
Net change in fund balances	-	-	(718)	(718)
Fund balances at beginning of year	-	-	7,809	7,809
Fund balances at end of year	\$ -	\$ -	\$ 7,091	\$ 7,091

Virginia Retirement System  
Schedule of Pension Funding Progress  
Last Three Fiscal Years

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Actuarial Valuation as of		Actuarial Value of Assets (AVA)		Actuarial Accrued Liability (AAL)		Unfunded AAL (UAAL) (3) - (2)		Funded Ratio (2)/(3)		Covered Payroll		UAAL as a % of Covered Payroll (4)/(6)
(1)		(2)		(3)		(4)		(5)		(6)		(7)
6/30/2011	\$	232,923	\$	235,428	\$	2,505		98.94%	\$	79,937		3.13%
6/30/2012		248,946		249,965		1,019		99.59%		81,216		1.25%
6/30/2013		269,473		265,247		(4,226)		101.59%		87,876		-4.81%

## Supporting Schedules

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

Fund, Major and Minor Revenue Source	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>General Fund:</u>			
Revenue from local sources:			
General property taxes:			
Real property taxes	\$ 21,475	\$ 21,449	\$ (26)
Public service corporation taxes:			
Real property	875	849	(26)
Penalties and interest	175	244	69
Total general property taxes	\$ 22,525	\$ 22,542	\$ 17
Other local taxes:			
Local sales and use taxes	\$ 17,000	\$ 18,572	\$ 1,572
Business license tax	4,300	4,780	480
Consumption tax	2,300	2,320	20
Bank franchise taxes	73,600	75,063	1,463
Consumer utility tax - electric	15,000	14,763	(237)
Motor vehicle licenses	8,500	7,875	(625)
Total other local taxes	\$ 120,700	\$ 123,373	\$ 2,673
Permits, privilege fees and regulatory licenses:			
Zoning permits	\$ 300	\$ 350	\$ 50
Revenue from use of money and property:			
Interest on bank deposits	\$ 12,500	\$ 14,152	\$ 1,652
Miscellaneous revenue:			
Miscellaneous income	\$ 300	\$ 214	\$ (86)
Total revenue from local sources	\$ 156,325	\$ 160,631	\$ 4,306
Intergovernmental Revenues:			
Revenue from the Commonwealth:			
Non-categorical aid:			
Communication sales and use taxes	\$ 14,400	\$ 14,025	\$ (375)
Total non-categorical aid	\$ 14,400	\$ 14,025	\$ (375)
Categorical aid:			
Law enforcement assistance	\$ 7,400	\$ 7,404	\$ 4
Litter control grant	-	1,060	1,060
Safety grant	1,200	-	(1,200)
Fire funds	8,000	10,000	2,000
Total Categorical aid	\$ 16,600	\$ 18,464	\$ 1,864
Total revenue from the Commonwealth	\$ 31,000	\$ 32,489	\$ 1,489
Total General Fund	\$ 187,325	\$ 193,120	\$ 5,795



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

<u>Fund, Major and Minor Revenue Source</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>Special Revenue Fund:</u></b>			
Festival Fund:			
Revenue from local sources:			
Festival fees and related items	\$ <u>5,000</u>	\$ <u>3,926</u>	\$ <u>(1,074)</u>
Total Special Revenue Fund	\$ <u>5,000</u>	\$ <u>3,926</u>	\$ <u>(1,074)</u>
<b><u>Capital Projects Fund:</u></b>			
Intergovernmental Revenues:			
Revenue from the federal government:			
Categorical aid:			
DHCD grant	\$ <u>-</u>	\$ <u>96,052</u>	\$ <u>96,052</u>
Total Capital Projects Fund	\$ <u>-</u>	\$ <u>96,052</u>	\$ <u>96,052</u>
Total Governmental Funds	\$ <u>192,325</u>	\$ <u>293,098</u>	\$ <u>100,773</u>

## Governmental Funds

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

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>General Fund:</u>			
General Government Administration:			
Mayor and Town council	\$ 1,600	\$ 1,600	\$ -
Salary - maintenance	16,725	16,864	(139)
Salary - general	57,400	57,791	(391)
Postage and stationery	3,900	2,453	1,447
Advertising	500	594	(94)
Computer software support and training	2,875	1,487	1,388
Utilities	1,700	1,561	139
Telephone	3,950	3,951	(1)
Water, trash, sewer	1,175	1,161	14
Dues and subscriptions	425	423	2
Retirement	3,925	3,937	(12)
Social security	5,675	5,321	354
Insurance	6,100	6,178	(78)
Audit and legal	4,550	4,400	150
Miscellaneous	875	665	210
Training	200	91	109
Town elections	900	1,211	(311)
Employee health insurance and life insurance	15,900	16,019	(119)
Mileage reimbursement	400	129	271
Uniforms	200	-	200
Office cleaning	750	660	90
Total general government administration	\$ 129,725	\$ 126,496	\$ 3,229
Public safety:			
Other law enforcement	\$ 7,400	\$ 7,404	\$ (4)
Fire funds	8,000	10,000	(2,000)
Total public safety	\$ 15,400	\$ 17,404	\$ (2,004)
Public works:			
Street and parking lot expense	\$ 500	\$ -	\$ 500
Street lights	7,825	7,733	92
Town revitalization	1,000	-	1,000
Repairs and maintenance	3,600	3,328	272
Total public works	\$ 12,925	\$ 11,061	\$ 1,864

## Governmental Funds

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

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>General Fund: (Continued)</u></b>			
Community Development:			
Christmas lights and decorations	\$ 750	\$ 968	\$ (218)
Contributions	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total community development	<u>\$ 4,750</u>	<u>\$ 4,968</u>	<u>\$ (218)</u>
Capital Outlay			
Office furniture and fixtures	<u>\$ 2,000</u>	<u>\$ 112</u>	<u>\$ 1,888</u>
Total capital outlay	<u>\$ 2,000</u>	<u>\$ 112</u>	<u>\$ 1,888</u>
Total General Fund	<u><u>\$ 164,800</u></u>	<u><u>\$ 160,041</u></u>	<u><u>\$ 4,759</u></u>
<b><u>Special Revenue Fund:</u></b>			
Festival Fund			
Community Development			
Supplies and services	<u>\$ 5,000</u>	<u>\$ 4,644</u>	<u>\$ 356</u>
Total Special Revenue Fund	<u><u>\$ 5,000</u></u>	<u><u>\$ 4,644</u></u>	<u><u>\$ 356</u></u>
<b><u>Capital Projects Fund:</u></b>			
Community Development			
Revitalization Projects	<u>\$ -</u>	<u>\$ 96,052</u>	<u>\$ (96,052)</u>
Total Capital Projects Fund	<u><u>\$ -</u></u>	<u><u>\$ 96,052</u></u>	<u><u>\$ (96,052)</u></u>
Total Governmental Funds	<u><u>\$ 169,800</u></u>	<u><u>\$ 260,737</u></u>	<u><u>\$ (90,937)</u></u>

## **Compliance**

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE HONORABLE MEMBERS OF THE TOWN COUNCIL  
TOWN OF MONTROSS, VIRGINIA  
MONTROSS, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Montross, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Montross, Virginia's basic financial statements, and have issued our report thereon dated March 26, 2015.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Montross, 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 Montross, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Montross, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Montross, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

*Robinson, Farmer, Cox Associates*

Fredericksburg, Virginia  
March 26, 2015