

TOWN OF MONTROSS, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

TOWN OF MONTROSS, VIRGINIA

TOWN COUNCIL

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

Brenda T. Reamy, Town Manager

TOWN OF MONTROSS, VIRGINIA

Financial Report
Year Ended June 30, 2013

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE MEMBERS OF 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of 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

Other Information (Continued)

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 February 26, 2014, on our consideration of the 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
February 26, 2014

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
As of June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 740,803	\$ 735,679	\$ 1,476,482
Receivables	6,526	14,994	21,520
Due from other governments	4,044	-	4,044
Inventory, at cost	-	10,573	10,573
Capital assets:			
Land	43,202	18,345	61,547
Other capital assets, net of accumulated depreciation	136,424	61,871	198,295
Capital assets, net	\$ 179,626	\$ 80,216	\$ 259,842
Total assets	\$ 930,999	\$ 841,462	\$ 1,772,461
Liabilities:			
Accounts payable	\$ 1,426	\$ 6,222	\$ 7,648
Due to other governments	101	-	101
Customers deposits	-	2,700	2,700
Long-term liabilities:			
Due within one year	1,040	-	1,040
Due in more than one year	9,357	-	9,357
Total liabilities	\$ 11,924	\$ 8,922	\$ 20,846
Net Position:			
Investment in capital assets	\$ 179,626	\$ 80,216	\$ 259,842
Unrestricted	739,449	752,324	1,491,773
Total net position	\$ 919,075	\$ 832,540	\$ 1,751,615

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

TOWN OF MONTROSS, VIRGINIA

Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 128,780	\$ -	\$ -	\$ -
Public safety	17,117	-	15,404	-
Public works	12,409	800	1,203	-
Community development	9,976	-	-	-
Total governmental activities	<u>\$ 168,282</u>	<u>\$ 800</u>	<u>\$ 16,607</u>	<u>\$ -</u>
Business-type activities:				
Water	\$ 76,336	\$ 67,311	\$ -	\$ -
Sanitation	75,092	77,174	-	-
Total business-type activities	<u>\$ 151,428</u>	<u>\$ 144,485</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	\$ 319,710	\$ 145,285	\$ 16,607	\$ -

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
\$	(128,780)	\$ -	\$	(128,780)
	(1,713)	-		(1,713)
	(10,406)	-		(10,406)
	(9,976)	-		(9,976)
\$	<u>(150,875)</u>	<u>\$ -</u>	\$	<u>(150,875)</u>
\$	-	\$ (9,025)	\$	(9,025)
	-	2,082		2,082
\$	<u>-</u>	<u>\$ (6,943)</u>	\$	<u>(6,943)</u>
\$	<u>(150,875)</u>	<u>\$ (6,943)</u>	\$	<u>(157,818)</u>
\$	22,526	\$ -	\$	22,526
	76,059	-		76,059
	18,382	-		18,382
	14,847	-		14,847
	15,886	-		15,886
	13,911	18,563		32,474
	14,267	-		14,267
	5,715	1,145		6,860
\$	<u>181,593</u>	<u>\$ 19,708</u>	\$	<u>201,301</u>
\$	30,718	\$ 12,765	\$	43,483
	888,357	\$ 819,775		1,708,132
\$	<u>919,075</u>	<u>\$ 832,540</u>	\$	<u>1,751,615</u>

Fund Financial Statements

Balance Sheet
 Governmental Funds
 As of June 30, 2013

	General	Special Revenue	Capital Projects	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 729,994	\$ 7,809	\$ 3,000	\$ 740,803
Receivables:				
Taxes including penalties	304	-	-	304
Accounts	6,222	-	-	6,222
Due from other governments	4,044	-	-	4,044
Due from other funds	3,000	-	-	3,000
Total assets	<u>\$ 743,564</u>	<u>\$ 7,809</u>	<u>\$ 3,000</u>	<u>\$ 754,373</u>
Liabilities:				
Accounts payable	\$ 1,426	\$ -	\$ -	\$ 1,426
Due to other funds	-	-	3,000	3,000
Due to other governments	101	-	-	101
Total liabilities	<u>\$ 1,527</u>	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 4,527</u>
Fund Balance:				
Committed:				
Festival	\$ -	\$ 7,809	\$ -	\$ 7,809
Assigned:				
Tower	108,594	-	-	108,594
Well #1	81,195	-	-	81,195
Well #2	81,298	-	-	81,298
Water system	285,963	-	-	285,963
Town code	23,053	-	-	23,053
Computer	4,955	-	-	4,955
Town hall	22,606	-	-	22,606
Comprehensive plan	19,761	-	-	19,761
Revitalization	855	-	-	855
Unassigned	113,757	-	-	113,757
Total fund balance	<u>\$ 742,037</u>	<u>\$ 7,809</u>	<u>\$ -</u>	<u>\$ 749,846</u>
Total liabilities and fund balance	<u>\$ 743,564</u>	<u>\$ 7,809</u>	<u>\$ 3,000</u>	<u>\$ 754,373</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, 2013

Total fund balances for governmental funds (Exhibit 3) \$ 749,846

Total net assets reported for governmental activities in the statement of net position is different because:

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	
Depreciable capital assets, net of accumulated depreciation	<u>136,424</u>	
Total capital assets		179,626

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

Compensated absences	<u>(10,397)</u>	
Total net position of governmental activities	\$ <u>919,075</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, 2013

	General	Special Revenue	Total Governmental Funds
Revenues:			
General property taxes	\$ 22,526	\$ -	\$ 22,526
Other local taxes	125,174	-	125,174
Permits, privilege fees and regulatory licenses	800	-	800
Revenue from use of money and property	13,911	-	13,911
Miscellaneous	987	4,728	5,715
Intergovernmental revenues:			
Commonwealth	30,874	-	30,874
Total revenues	\$ 194,272	\$ 4,728	\$ 199,000
Expenditures:			
Current:			
General government administration	\$ 122,214	\$ -	\$ 122,214
Public safety	15,404	-	15,404
Public works	12,043	-	12,043
Community development	4,711	5,100	9,811
Capital outlay	1,370	-	1,370
Total expenditures	\$ 155,742	\$ 5,100	\$ 160,842
Excess (deficiency) of revenues over (under) expenditures	\$ 38,530	\$ (372)	\$ 38,158
Net change in fund balances	\$ 38,530	\$ (372)	\$ 38,158
Fund balances at beginning of year	703,507	8,181	711,688
Fund balances at end of year	\$ 742,037	\$ 7,809	\$ 749,846

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, 2013

Net change in fund balances - total governmental funds (Exhibit 5) \$ 38,158

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	2,670
Depreciation Expense	(9,124)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to decrease net position. (780)

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>(206)</u>
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Change in net position of governmental activities	\$ <u><u>30,718</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, 2013

	Business-Type Activities		
	Water Fund	Sanitation Fund	Totals
Assets:			
Current assets:			
Cash and cash equivalents	\$ 721,009	\$ 14,670	\$ 735,679
Accounts Receivable	6,772	8,222	14,994
Inventory, at cost	10,573	-	10,573
Total current assets	\$ 738,354	\$ 22,892	\$ 761,246
Capital assets, net of accumulated depreciation	80,216	-	80,216
Total assets	<u>\$ 818,570</u>	<u>\$ 22,892</u>	<u>\$ 841,462</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 577	\$ 5,645	\$ 6,222
Customers deposits	2,700	-	2,700
Total liabilities	<u>\$ 3,277</u>	<u>\$ 5,645</u>	<u>\$ 8,922</u>
Net Position:			
Investment in capital assets	\$ 80,216	\$ -	\$ 80,216
Unrestricted	735,077	17,247	752,324
Total net position	<u>\$ 815,293</u>	<u>\$ 17,247</u>	<u>\$ 832,540</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, 2013

	Business-Type Activities		
	Water Fund	Sanitation Fund	Totals
Operating revenues:			
Charges for services	\$ 67,311	\$ 77,174	\$ 144,485
Operating expenses:			
Personnel services	\$ 14,909	\$ 3,350	\$ 18,259
Fringe benefits	2,008	475	2,483
Contractual services	8,208	70,269	78,477
Other charges	3,578	998	4,576
Materials and supplies	34,730	-	34,730
Depreciation	12,768	-	12,768
Total operating expenses	\$ 76,201	\$ 75,092	\$ 151,293
Operating income (loss)	\$ (8,890)	\$ 2,082	\$ (6,808)
Nonoperating revenues (expenses):			
Interest income	\$ 18,557	\$ 6	\$ 18,563
Gain (loss) on disposal of capital assets	(135)	-	(135)
Miscellaneous	1,145	-	1,145
Total nonoperating revenues	\$ 19,567	\$ 6	\$ 19,573
Change in net position	\$ 10,677	\$ 2,088	\$ 12,765
Net position, beginning of year	804,616	15,159	819,775
Net position, end of year	\$ 815,293	\$ 17,247	\$ 832,540

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

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

	Business-Type Activities		
	Water Fund	Sanitation Fund	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 67,711	\$ 77,352	\$ 145,063
Payments to and for employees	(16,917)	(3,825)	(20,742)
Payments to suppliers	(51,963)	(71,088)	(123,051)
Net cash provided by (used for) operating activities	\$ (1,169)	\$ 2,439	\$ 1,270
Cash flows from investing activities:			
Interest income	\$ 18,557	\$ 6	\$ 18,563
Cash flows from capital and related financing activities:			
Purchase of capital assets	\$ (52,455)	\$ -	\$ (52,455)
Disposal of capital assets	(135)	-	(135)
Net cash provided by (used for) capital and related financing activities	\$ (52,590)	\$ -	\$ (52,590)
Cash flows from noncapital financing activities:			
Miscellaneous income	\$ 1,145	\$ -	\$ 1,145
Net cash provided by (used for) noncapital financing activities	\$ 1,145	\$ -	\$ 1,145
Net increase (decrease) in cash and cash equivalents	\$ (34,057)	\$ 2,445	\$ (31,612)
Cash and cash equivalents at beginning of year	755,066	12,225	767,291
Cash and cash equivalents at end of year	\$ 721,009	\$ 14,670	\$ 735,679
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (8,890)	\$ 2,082	\$ (6,808)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	12,768	-	12,768
Changes in operating accounts:			
Accounts receivable	550	178	728
Inventory	(2,297)	-	(2,297)
Accounts payable	(3,150)	179	(2,971)
Customer deposits	(150)	-	(150)
Net cash provided by (used for) operating activities	\$ (1,169)	\$ 2,439	\$ 1,270

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, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile:

The 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 388 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 the 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 government'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.

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

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.

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

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 non-operating 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 2013.

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:

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

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.

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

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.

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

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)

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, 2013.

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, 2013.

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)

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, 2013 (Continued)

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

O. Adoption of Accounting Principles:

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board:

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board:

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

NOTE 2—PROPERTY TAXES:

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:

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.

TOWN OF MONTROSS, VIRGINIA

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

NOTE 3—DEPOSITS AND INVESTMENTS: (Continued)

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, 2013.

NOTE 4—CAPITAL ASSETS:

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

Governmental Activities:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 43,202	\$ -	\$ -	\$ 43,202
Other capital assets:				
Buildings and improvements	\$ 233,501	\$ -	\$ -	\$ 233,501
Office and other equipment	46,723	2,670	3,329	46,064
Total other capital assets	\$ 280,224	\$ 2,670	\$ 3,329	\$ 279,565
Accumulated depreciation:				
Buildings and improvements	\$ 92,886	\$ 8,116	\$ -	\$ 101,002
Office and other equipment	43,680	1,008	2,549	42,139
Total accumulated depreciation	\$ 136,566	\$ 9,124	\$ 2,549	\$ 143,141
Other capital assets, net	\$ 143,658	\$ (6,454)	\$ 780	\$ 136,424
Net capital assets	\$ 186,860	\$ (6,454)	\$ 780	\$ 179,626

Depreciation expense has been allocated
as follows:

General government administration	\$ 6,874
Public safety	1,719
Public works	366
Community development	165
Total depreciation expense	\$ 9,124

TOWN OF MONTROSS, VIRGINIA

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

NOTE 4—CAPITAL ASSETS: (Continued)

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

Business-Type Activities:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 18,345	\$ -	\$ -	\$ 18,345
Other capital assets:				
Water System	\$ 377,875	\$ 51,642	\$ 3,921	\$ 425,596
Vehicles	9,890	-	-	9,890
Office and other equipment	20,966	949	450	21,465
Total other capital assets	\$ 408,731	\$ 52,591	\$ 4,371	\$ 456,951
Accumulated depreciation:				
Water System	\$ 362,654	\$ 9,645	\$ 3,921	\$ 368,378
Vehicles	6,887	1,572	-	8,459
Office and other equipment	17,006	1,551	314	18,243
Total accumulated depreciation	\$ 386,547	\$ 12,768	\$ 4,235	\$ 395,080
Other capital assets, net	\$ 22,184	\$ 39,823	\$ 136	\$ 61,871
Net capital assets	\$ 40,529	\$ 39,823	\$ 136	\$ 80,216

Depreciation expense has been allocated
as follows:

Water Fund	\$ 12,768
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NOTE 5—LONG TERM OBLIGATIONS:

Governmental Activities:

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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Compensated absences	\$ 10,191	\$ 1,225	\$ 1,019	\$ 10,397	\$ 1,040

TOWN OF MONTROSS, VIRGINIA

Notes to Financial Statements As of June 30, 2013 (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 \$10,397 in the General Fund.

NOTE 7—DEFINED BENEFIT PENSION PLAN:

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

TOWN OF MONTROSS, VIRGINIA

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

NOTE 7—DEFINED BENEFIT PENSION PLAN: (Continued)

A. Plan Description (Continued)

The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (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/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% 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 2013 was 5.32% of annual covered payroll

C. Annual Pension Cost

For fiscal year 2013, the Town's annual pension cost of \$4,675 (does not include the employee share assumed by the Town which was \$4,394) was equal to the Town's required and actual contributions.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) *</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$ 8,377	100%	\$ -
6/30/12	8,512	100%	-
6/30/13	4,675	100%	-

* Includes employer contributions only

TOWN OF MONTROSS, VIRGINIA

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

NOTE 7—DEFINED BENEFIT PENSION PLAN: (Continued)

C. Annual Pension Cost (Continued)

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% 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, 2012, the most recent actuarial valuation date, the Town's plan was 99.59% funded. The actuarial accrued liability for benefits was \$249,965, and the actuarial value of assets was \$248,946, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,019. The covered payroll (annual payroll of active employees covered by the plan) was \$81,216, and ratio of the UAAL to the covered payroll was 1.25%.

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

NOTE 8—SEGMENT INFORMATION:

The Town maintains two Enterprise Funds which provide water and sanitation services. Segment information for the year ended June 30, 2013 was as follows:

	Water Fund	Sanitation Fund	Total
Operating revenues	\$ 67,311	\$ 77,174	\$ 144,485
Depreciation expense	12,768	-	12,768
Operating income (loss)	(8,890)	2,082	(6,808)
Net income (loss)	10,677	2,088	12,765
Net working capital	735,077	17,247	752,324
Total assets	818,570	22,892	841,462
Total net position	815,293	17,247	832,540

TOWN OF MONTROSS, VIRGINIA

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

NOTE 9—CONTINGENT LIABILITIES:

At June 30, 2013, 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	\$ 15,404	\$ (4)

NOTE 12—PENDING GASB PRONOUNCEMENTS:

At June 30, 2013, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Town. The statements which might impact the Town are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Statement No. 68 will be effective for fiscal years beginning after June 15, 2014.

The Town has not yet determined the effect these GASB Statements will have on its financial statements.

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, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 22,525	\$ 22,525	\$ 22,526	\$ 1
Other local taxes	115,000	115,000	125,174	10,174
Permits, privilege fees and regulatory licenses	300	300	800	500
Revenue from use of money and property	12,100	12,100	13,911	1,811
Miscellaneous	450	450	987	537
Intergovernmental revenues:				
Commonwealth	30,250	30,250	30,874	624
Total revenues	\$ 180,625	\$ 180,625	\$ 194,272	\$ 13,647
Expenditures:				
Current:				
General government administration				
Legislative	\$ 1,600	\$ 1,600	\$ 1,600	\$ -
General and financial administration	122,975	122,975	120,614	2,361
Total general government administration	\$ 124,575	\$ 124,575	\$ 122,214	\$ 2,361
Public safety:				
Law Enforcement	\$ 7,400	\$ 7,400	\$ 7,404	\$ (4)
Fire Department Funds	8,000	8,000	8,000	-
Total public safety	\$ 15,400	\$ 15,400	\$ 15,404	\$ (4)
Public works:				
Maintenance of streets, parking lots, and street lights	\$ 8,300	\$ 8,300	\$ 7,800	\$ 500
Town Revitalization	1,000	1,000	-	1,000
Maintenance of buildings and grounds	3,400	3,400	4,243	(843)
Total public works	\$ 12,700	\$ 12,700	\$ 12,043	\$ 657
Community development:				
Contributions	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Christmas lights and decorations	1,000	1,000	711	289
Total community development	\$ 5,000	\$ 5,000	\$ 4,711	\$ 289
Capital outlay:				
Purchase of capital assets	\$ 2,000	\$ 2,000	\$ 1,370	\$ 630
Total expenditures	\$ 159,675	\$ 159,675	\$ 155,742	\$ 3,933
Excess (deficiency) of revenues over (under) expenditures	\$ 20,950	\$ 20,950	\$ 38,530	\$ 17,580
Net change in fund balances	\$ 20,950	\$ 20,950	\$ 38,530	\$ 17,580
Fund balances at beginning of year	(20,950)	(20,950)	703,507	724,457
Fund balances at end of year	\$ -	\$ -	\$ 742,037	\$ 742,037

Special Revenue Fund

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

Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Miscellaneous	\$ 5,000	\$ 5,000	\$ 4,728	\$ (272)
Expenditures				
Current:				
Community development:				
Supplies and services	\$ 5,000	\$ 5,000	\$ 5,100	\$ (100)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (372)	\$ (372)
Net change in fund balances	-	-	(372)	(372)
Fund balances at beginning of year	-	-	8,181	8,181
Fund balances at end of year	\$ -	\$ -	\$ 7,809	\$ 7,809

Virginia Retirement System
 Schedule of Pension Funding Progress

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)
6/30/2010	\$ 212,220	\$ 220,898	\$ 8,678	96.07%	\$ 78,433	11.06%
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%

Supporting Schedules

GOVERNMENTAL FUNDS

Schedule of Revenues - Final Budget and Actual
Year Ended June 30, 2013

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	\$ 21,485	\$ 10
Public service corporation taxes:			
Real property	875	876	1
Penalties and interest	175	165	(10)
Total general property taxes	\$ 22,525	\$ 22,526	\$ 1
Other local taxes:			
Local sales and use taxes	\$ 14,000	\$ 18,382	\$ 4,382
Business license tax	4,100	4,911	811
Consumption tax	2,450	2,326	(124)
Bank franchise taxes	70,000	76,059	6,059
Consumer utility tax - electric	15,950	14,847	(1,103)
Motor vehicle licenses	8,500	8,649	149
Total other local taxes	\$ 115,000	\$ 125,174	\$ 10,174
Permits, privilege fees and regulatory licenses:			
Zoning permits	\$ 300	\$ 800	\$ 500
Revenue from use of money and property:			
Interest on bank deposits	\$ 12,100	\$ 13,911	\$ 1,811
Miscellaneous revenue:			
Miscellaneous income	\$ 450	\$ 987	\$ 537
Total revenue from local sources	\$ 150,375	\$ 163,398	\$ 13,023
Intergovernmental Revenues:			
Revenue from the Commonwealth:			
Non-categorical aid:			
Communication sales and use taxes	\$ 13,850	\$ 14,267	\$ 417
Categorical aid:			
Law enforcement assistance	\$ 7,400	\$ 7,404	\$ 4
Litter control grant	1,000	1,203	203
Fire funds	8,000	8,000	-
Total Categorical aid	\$ 16,400	\$ 16,607	\$ 207
Total revenue from the Commonwealth	\$ 30,250	\$ 30,874	\$ 624
Total General Fund	\$ 180,625	\$ 194,272	\$ 13,647

GOVERNMENTAL FUNDS

Schedule of Revenues - Final Budget and Actual

Year Ended June 30, 2013

Fund, Major and Minor Revenue Source	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Special Revenue Fund:</u>			
Festival Fund:			
Revenue from local sources:			
Festival fees and related items	\$ 5,000	\$ 4,728	\$ (272)
Total Special Revenue Fund	\$ 5,000	\$ 4,728	\$ (272)
Total Governmental Funds	\$ 185,625	\$ 199,000	\$ 13,375

GOVERNMENTAL FUNDS

Schedule of Expenditures--Final Budget and Actual
Year Ended June 30, 2013

Fund, Function, Activity and Elements	Final Budget	Actual	Variance Favorable (Unfavorable)
General Fund:			
General Government Administration:			
Mayor and Town council	\$ 1,600	\$ 1,600	\$ -
Salary - maintenance	16,225	16,412	(187)
Salary - general	55,325	55,535	(210)
Postage and stationery	3,500	3,593	(93)
Advertising	500	711	(211)
Computer software support	2,875	1,502	1,373
Utilities	1,700	1,601	99
Telephone	3,725	3,872	(147)
Water, trash, sewer	1,175	1,143	32
Dues and subscriptions	425	395	30
Retirement	3,800	3,777	23
Social security	5,475	5,138	337
Insurance	6,000	5,962	38
Audit and legal	4,550	4,150	400
Miscellaneous	800	657	143
Training	200	145	55
Employee health insurance & life insurance	15,350	15,273	77
Mileage reimbursement	400	143	257
Uniforms	200	-	200
Office Cleaning	750	605	145
Total general government administration	\$ 124,575	\$ 122,214	\$ 2,361
Public safety:			
Other law enforcement	\$ 7,400	\$ 7,404	\$ (4)
Fire funds	8,000	8,000	-
Total public safety	\$ 15,400	\$ 15,404	\$ (4)
Public works:			
Street and parking lot expense	\$ 500	\$ -	\$ 500
Street lights	7,800	7,800	-
Town Revitalization	1,000	-	1,000
Repairs and maintenance	3,400	4,243	(843)
Total public works	\$ 12,700	\$ 12,043	\$ 657

GOVERNMENTAL FUNDS

Schedule of Expenditures--Final Budget and Actual
Year Ended June 30, 2013

<u>Fund, Function, Activity and Elements</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>General Fund: (Continued)</u>			
Community Development:			
Christmas lights and decorations	\$ 1,000	\$ 711	\$ 289
Contributions	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total community development	\$ <u>5,000</u>	\$ <u>4,711</u>	\$ <u>289</u>
Capital Outlay			
Office furniture and fixtures	\$ <u>2,000</u>	\$ <u>1,370</u>	\$ <u>630</u>
Total capital outlay	\$ <u>2,000</u>	\$ <u>1,370</u>	\$ <u>630</u>
Total General Fund	\$ <u><u>159,675</u></u>	\$ <u><u>155,742</u></u>	\$ <u><u>3,933</u></u>
<u>Special Revenue Fund:</u>			
Festival Fund			
Community Development			
Supplies and services	\$ <u>5,000</u>	\$ <u>5,100</u>	\$ <u>(100)</u>
Total Special Revenue Fund	\$ <u><u>5,000</u></u>	\$ <u><u>5,100</u></u>	\$ <u><u>(100)</u></u>
Total Governmental Funds	\$ <u><u>164,675</u></u>	\$ <u><u>160,842</u></u>	\$ <u><u>3,833</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
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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Montross, Virginia's basic financial statements, and have issued our report thereon dated February 26, 2014.

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.

A handwritten signature in cursive script that reads "Robinson, Farmer, Cox Associates".

Fredericksburg, Virginia
February 26, 2014