

TOWN OF TIMBERVILLE, VIRGINIA
FINANCIAL AND COMPLIANCE REPORTS
JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council
Town of Timberville
Timberville, VA 22853

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, 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 Timberville'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, 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.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Timberville's basic financial statements. The other supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates 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 information is 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 October 4, 2013, on our consideration of the Town of Timberville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Timberville's internal control over financial reporting and compliance.

Young, Nicholas Branner & Phillips, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Timberville's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2013. Please read it in conjunction with the Town's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities by \$2,750,734 at the close of the most recent fiscal year.
- The Town's net position increased as a result of this year's operations. While net position of the business-type activities decreased by \$145,491, net position of the governmental activities increased by \$280,620.
- In the Town's business-type activities, revenues decreased by \$20,228 from the previous year while expenses decreased by \$57,065.
- In the Town's governmental activities, revenues increased by \$40,279 from the previous year while expenses increased by \$60,945.
- Actual revenues were \$82,062 more than budgeted for the General Fund. General Fund expenditures were \$98,129 more than budgeted.
- Operating revenues and interest earned were \$23,955 less than budgeted for the Water and Sewer Fund. Water and Sewer Fund operating expenses, excluding depreciation, and interest expense were \$6,278 less than budgeted.
- The Town spent \$353,400 for capital outlays during the current fiscal year.
- The Town's long-term debt increased by \$48,546 during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 11 and 12) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that help answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net position* and changes in it. You can think of the Town's net position-the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources-as one way to measure the Town's financial health, or *financial position*. Over time, *increases* or *decreases* in the Town's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property base to assess the *overall health* of the Town.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities:

- *Governmental activities*-Most of the Town's basic services are reported here, including public safety, public works, parks and recreation, and general administration. Property taxes, other local taxes and state and federal grants finance most of these activities.
- *Business-type activities*-The Town charges a fee to customers/users to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system is reported here.

Reporting the Town's Most Significant Funds

The fund financial statements begin on page 13 and provide detailed information about the Town's funds-not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the budget ordinance. The Town's two kinds of funds-*governmental* and *proprietary*-use different accounting approaches.

- *Governmental fund*-Most of the Town's basic services are reported in the governmental fund, which focuses on how money flows into and out of the fund and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Town's fund balances by law, creditors, Town council, and the Town's annually adopted budget. Unassigned fund balance is available for spending for any purpose. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and the governmental *fund* in reconciliations following the fund financial statements.
- *Proprietary fund*-When the Town charges customers/users for the services provided it is reported in a proprietary fund. The proprietary fund is reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows, for the proprietary fund.

THE TOWN AS TRUSTEE

The Town is the trustee, or fiduciary, for the EDA Fund. All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position on pages 21 and 22. Since this fund is custodial in nature (i.e. assets equal liabilities) it does not involve the measurement of results of operations. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

THE TOWN AS A WHOLE

The Town's *combined* net position changed slightly from a year ago – *increasing* from \$2,615,605 to \$2,750,734. During the year, the net position of the governmental activities increased by 33.0 percent and the business-type activities decreased by 8.2 percent. Below is a summary of the net position as of June 30, 2013 and 2012.

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 593,968	\$ 520,053	\$ 832,324	\$ 950,025	\$ 1,426,292	\$ 1,470,078
Capital assets	798,046	746,517	1,105,888	910,894	1,903,934	1,657,411
Total assets	<u>\$ 1,392,014</u>	<u>\$ 1,266,570</u>	<u>\$ 1,938,212</u>	<u>\$ 1,860,919</u>	<u>\$ 3,330,226</u>	<u>\$ 3,127,489</u>
Long-term liabilities	\$ -	\$ 176,198	\$ 258,849	\$ 34,105	\$ 258,849	\$ 210,303
Other liabilities	262,000	240,978	58,643	60,603	320,643	301,581
Total liabilities	<u>\$ 262,000</u>	<u>\$ 417,176</u>	<u>\$ 317,492</u>	<u>\$ 94,708</u>	<u>\$ 579,492</u>	<u>\$ 511,884</u>
Net position:						
Net investment in capital assets	\$ 798,046	\$ 570,319	\$ 847,039	\$ 876,789	\$ 1,645,085	\$ 1,447,108
Unrestricted	331,968	279,075	773,681	889,422	1,105,649	1,168,497
Total net position	<u>\$ 1,130,014</u>	<u>\$ 849,394</u>	<u>\$ 1,620,720</u>	<u>\$ 1,766,211</u>	<u>\$ 2,750,734</u>	<u>\$ 2,615,605</u>

The largest portion of the Town's net position (60 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and improvements), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position (\$1,105,649) may be used to meet the government's ongoing obligation to citizens and creditors.

The following is a summary of the change in net position for the governmental and business-type activities for the years ended June 30, 2013 and 2012.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Charges for services	\$ 166,978	\$ 175,068	\$ 549,326	\$ 568,996	\$ 716,304	\$ 744,064
General property taxes	182,272	182,283	-	-	182,272	182,283
Other local taxes	532,313	487,297	-	-	532,313	487,297
Intergovernmental	113,520	109,981	2,665	3,223	116,185	113,204
Miscellaneous	1,075	1,250	-	-	1,075	1,250
Total revenues	<u>\$ 996,158</u>	<u>\$ 955,879</u>	<u>\$ 551,991</u>	<u>\$ 572,219</u>	<u>\$ 1,548,149</u>	<u>\$ 1,528,098</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Program expenses						
General government	\$ 320,217	\$ 296,802	\$ -	\$ -	\$ 320,217	\$ 296,802
Public safety	319,404	292,600	-	-	319,404	292,600
Public works	271,276	260,197	-	-	271,276	260,197
Parks and recreation	64,200	64,553	-	-	64,200	64,553
Water and sewer	-	-	445,004	502,069	445,004	502,069
Total expenses	<u>\$ 975,097</u>	<u>\$ 914,152</u>	<u>\$ 445,004</u>	<u>\$ 502,069</u>	<u>\$ 1,420,101</u>	<u>\$ 1,416,221</u>
Operating income	<u>\$ 21,061</u>	<u>\$ 41,727</u>	<u>\$ 106,987</u>	<u>\$ 70,150</u>	<u>\$ 128,048</u>	<u>\$ 111,877</u>
Nonoperating						
Interest income	\$ 6,840	\$ 7,101	\$ 2,954	\$ 6,443	\$ 9,794	\$ 13,544
Interest expense	(303)	(7,320)	(1,617)	(2,147)	(1,920)	(9,467)
(Loss) on sale of equipment	(793)	-	-	-	(793)	-
Total nonoperating	<u>\$ 5,744</u>	<u>\$ (219)</u>	<u>\$ 1,337</u>	<u>\$ 4,296</u>	<u>\$ 7,081</u>	<u>\$ 4,077</u>
Income before transfers	\$ 26,805	\$ 41,508	\$ 108,324	\$ 74,446	\$ 135,129	\$ 115,954
Transfers	<u>253,815</u>	<u>21,221</u>	<u>(253,815)</u>	<u>(21,221)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ 280,620</u>	<u>\$ 62,729</u>	<u>\$ (145,491)</u>	<u>\$ 53,225</u>	<u>\$ 135,129</u>	<u>\$ 115,954</u>

The Town's total revenues increased by \$20,051 (1.3 percent). The total cost of all programs and services increased by \$3,880 (.3 percent). Our analysis that follows separately considers the operations of governmental and business-type activities.

Governmental Activities

Revenues for the Town's governmental activities increased by \$40,279 (4.2 percent) and expenses increased by \$60,945 (6.7 percent). The factors driving these results include:

Revenues

- *Charges for services* overall decreased by \$8,090. Parks and recreation decreased by \$7,016 mainly due to daily and seasonal passes (by \$3,647) and concession stand revenue (by \$2,809). Inclement weather triggered a decrease in pool attendance which caused both categories to contract. A decrease to public safety (by \$1,979) is attributable to less court fines during the current year.
- *Other local taxes* overall increased by \$45,016. Sales tax increased by \$22,076, meals tax increased by \$12,357, and business and professional licenses increased by \$13,124. All of these categories increased as a result of the Town's experiencing small growth during the current fiscal year.

Expenses

- *General government* overall increased by \$23,415. Retirement increased by \$7,371 due to an increase in the contribution rate. Telephone expenses increased by \$4,520 from the current year telephone maintenance contract. Full-time salaries and part-time office help increased by \$3,509 and \$6,617, respectively. Full-time salaries increased as a result of current year raises, and a part-time office assistant was added during the current year.
- *Public safety* overall increased by \$26,804. Retirement increased by \$8,903 due to an increase in the contribution rate. Police salaries for full-time officers increased by \$6,556. This increase is due to current year raises. An increase to part-time officers' salaries, by \$2,843, is attributable to additional help required during the current year. Additional supplies were needed during the current year, causing an increase in this account by \$4,309.
- *Public works* overall increased by \$11,079. The maintenance supervisor salary increased by \$2,608 from an annual pay raise. Retirement increased by \$2,832 due to an increase in the contribution rate. Buildings and grounds maintenance increased by \$5,520 from the purchase of street lights and the derecho storm damage clean-up.

Business-Type Activities

Revenues for the Town's business-type activities decreased by \$20,228 (3.5 percent) and expenses decreased by \$57,065 (11.4 percent). The factors driving these results include:

Revenues

- *Water and sewer revenues* overall decreased by \$20,228. Water and sewer connection fees decreased by \$24,000. Several new homes were constructed in the prior year; however, in the current year, there was very little new construction. Water and sewer service charges increased by \$4,560 due to the prior year's new home additions.

Expenses

- *Water and sewer expenses* overall decreased by \$57,065. Professional fees decreased by \$34,673. The prior year's expenses included water modeling and a feasibility study. The current year's expenses completed the water modeling. Equipment repairs and maintenance decreased by \$37,478. The Town is in the process of upgrading and installing water meters and incurred added costs in the prior year for meters purchased. A decrease in the sewer disposal contract, by \$8,122, was from the prior year's containing the Town's share of the cost of sludge removal required at the Broadway plant. Increases included retirement, which increased by \$6,186, due to an increase in the contribution rate. Vehicle repairs and maintenance increased by \$10,848. The primary increase is from backhoe damage suffered during the derecho storm clean-up.

THE TOWN'S FUNDS

As the Town completed the year, its governmental fund (as presented in the balance sheet on page 13) reported a fund balance of \$311,716, which is an increase of \$49,755 over last year's total of \$261,961. The primary reasons for the General Fund's increase mirror the changes noted in the previous section under "governmental" activities. In addition, the Town expended \$109,345 on capital additions (see page 49), an increase of \$29,643 over the prior year.

As the Town completed the year, its proprietary fund (as presented in the statement of net position on page 17) reported net position of \$1,620,720, which is a decrease of \$145,491 over last year's total of \$1,766,211. Significant changes in the change in net position are noted in the previous section under "business-type" activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Town Council did not make any revisions to the General Fund budget. The significant variations of actual results to the General Fund budget (original and final) are summarized as follows:

<u>Account</u>	<u>Variance Positive (Negative)</u>
Revenues	
Sales tax	\$ 13,247
Meals tax	9,034
Business and professional licenses	11,395
Vehicle license fees	(4,123)
Interest earned	6,740
Safe Routes to School Program grant	12,814
FEMA storm grant, passed through Virginia Department of Energy Management	24,939
Expenditures	
<i>General Government</i>	
Salary - Clerk/Treasurer	\$ (4,112)
Legal fees	(9,178)
Telephone	(4,540)
<i>Public Safety</i>	
Police Chief salary	(6,396)
Police salaries	(4,935)
Capital outlay	6,720
<i>Public Works</i>	
Capital outlay	(67,409)
Buildings and grounds maintenance	(6,798)
Disposal contract	8,425
<i>Parks and Recreation</i>	
Salaries - others	(3,783)

Actual revenues exceeded the final budgeted amounts by \$82,062. Sales tax, meals tax, and business and professional licenses revenue increased by more than expected indicating some small growth in the local economy. The Town received a Federal Emergency Management Agency (FEMA) storm grant passed through the Virginia Department of Energy Management during the year. The Town suffered storm damage during the derecho that passed through the area and used the funds for the clean-up process. The Town also received reimbursements from the Safe Routes to School Program Grant. The grant commenced in the prior year, and the reimbursements are for engineering fees for the program. The purpose of the project is to construct sidewalks on American Legion Drive from the intersection of Lone Pine Drive and the American Legion to the Plains Elementary School entrance, for a total sidewalk length of 808 feet.

Actual expenditures were more than the final budget by \$98,129. Greater capital outlays than planned caused the public works actual expenditures to exceed the budget. Public works capital outlays included amounts related to the sidewalks for the Church Street water and sewer lines installation project (\$69,325) and the Safe Routes to School Program grant (\$13,083). An increase in legal fees was attributable to more services needed from the Town attorney mainly related to various ordinances. An increase in the Treasurer's salary included overtime for attending regular and special council meetings, working special events, and being reimbursed for unused vacation time. Increases in police salaries were due mainly to overtime devoted to public safety; however, these increases were funded by Federal grants. Buildings and grounds maintenance was more than budgeted due to the derecho storm damage clean-up and from the purchase of street lights.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the Town had \$1.90 million invested in capital assets including public works and police equipment, buildings, park facilities, sidewalks, and the water and sewer system. (See table below.) This represents a net increase of \$246,523, or 14.9 percent, over last year.

	Governmental Activities		Business-Type Activities		Totals	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 47,200	\$ 47,200	\$ -	\$ -	\$ 47,200	\$ 47,200
Buildings	314,779	328,102	13,502	15,031	328,281	343,133
Infrastructure	295,994	223,298	-	-	295,994	223,298
Equipment	140,073	147,917	41,020	57,367	181,093	205,284
Utility system	-	-	1,051,366	838,496	1,051,366	838,496
Totals	<u>\$ 798,046</u>	<u>\$ 746,517</u>	<u>\$ 1,105,888</u>	<u>\$ 910,894</u>	<u>\$ 1,903,934</u>	<u>\$ 1,657,411</u>

This year's major additions included:

2013 Dodge Charger	\$ 23,280
Safe Routes to School Program grant, infrastructure	13,083
Church Street project - sidewalks	69,325
Church Street project - water	118,070
Church Street project - sewer	83,408
Lone Pine projects (engineering fees)	<u>21,289</u>
	<u>\$ 328,455</u>

Debt

At year-end, the Town had \$258,849 in outstanding loans compared to \$210,303 last year. This is an increase of 23.1 percent as shown in the following table.

Governmental-Type Activities

	Outstanding June 30,	
	<u>2013</u>	<u>2012</u>
General Fund loans payable	\$ <u>-</u>	\$ <u>176,198</u>

Business-Type Activities

	Outstanding June 30,	
	<u>2013</u>	<u>2012</u>
Water & Sewer Fund loans payable	\$ <u>258,849</u>	\$ <u>34,105</u>

New debt was issued for infrastructure improvements in the Water and Sewer Fund. The total amount of new debt was \$258,849, for the year ended June 30, 2013.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The FY 2013-2014 budget has decreased over the FY 2012-2013 budget by \$1,652,880. This is a 51.9 percent decrease in revenue over the prior year. The significant decrease is mainly from loan proceeds budgeted in the prior year in the water and sewer fund. The Town planned to borrow \$1.5 million for infrastructure improvements. Also in the prior year, the Town budgeted transfers from savings in order to pay off all outstanding loans before proceeding with the infrastructure improvement plan.

Some increases include sales and meals tax revenues and water and sewer charges. The sales and meals tax revenues are increasing to reflect increases in actual revenues due to some small growth in the Town. The water and sewer charges are increasing as a result of a 3 percent increase in rates.

The Town continues the process of replacing all water meters with radio-read meters. The radio-read meters are saving time and labor during the data collection process. The Town estimates a one-to-two year time frame to complete installation of the radio-read meters.

A capital outlay for \$10,000 is budgeted in streets to purchase Christmas lights. Capital outlays for \$27,200 are budgeted in the public works department for a portion of the cost of a dump truck (\$15,000) and a zero-turn mower (\$12,200). The water fund has budgeted capital outlays (\$17,861) for unexpected projects that may arise in the upcoming fiscal year.

Funds are allocated in the FY 2013-2014 budget for raises. A 4 percent pool of increases is distributed among personnel. The majority of employees received 4 percent raises. Three percent is consistent with the average cost-of-living increase for the Town and one percent is required by VRS.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town Office at 392 South Main Street, Timberville, VA.

Government-Wide Financial Statements

TOWN OF TIMBERVILLE, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2013

	----- Primary Government -----		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 273,637	\$ 764,658	\$ 1,038,295
Receivables (net of allowance for uncollectibles):			
Property taxes	219,668	-	219,668
Utility taxes	4,022	-	4,022
Vehicle license fees	19,422	-	19,422
Meals and occupancy taxes	13,289	-	13,289
Accounts	22,745	89,805	112,550
Accrued interest	746	106	852
Container deposits	-	500	500
Due from other governmental units	15,258	-	15,258
Internal balances	22,745	(22,745)	-
Inventory, at cost	2,436	-	2,436
Capital assets:			
Non-depreciable	47,200	-	47,200
Depreciable, net of accumulated depreciation	<u>750,846</u>	<u>1,105,888</u>	<u>1,856,734</u>
Total assets	<u>\$ 1,392,014</u>	<u>\$ 1,938,212</u>	<u>\$ 3,330,226</u>
LIABILITIES			
Accounts payable	\$ 36,536	\$ 14,894	\$ 51,430
Renters' deposits	-	29,352	29,352
Accrued compensated absences	27,293	7,560	34,853
Accrued interest payable	-	62	62
Due to EDA fund	3,485	-	3,485
Deferred revenue	194,686	-	194,686
Water and sewer hook-ups	-	6,775	6,775
Long-term liabilities:			
Due in more than one year	<u>-</u>	<u>258,849</u>	<u>258,849</u>
Total liabilities	<u>\$ 262,000</u>	<u>\$ 317,492</u>	<u>\$ 579,492</u>
NET POSITION			
Net investment in capital assets	\$ 798,046	\$ 847,039	\$ 1,645,085
Unrestricted	<u>331,968</u>	<u>773,681</u>	<u>1,105,649</u>
Total net position	<u>\$ 1,130,014</u>	<u>\$ 1,620,720</u>	<u>\$ 2,750,734</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

<u>Functions/ Programs</u>	<u>Expenses</u>	----- Program Revenues -----		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Primary Government:				
Governmental activities:				
General government administration	\$ 320,217	\$ 3,270	\$ 1,075	\$ -
Public safety	319,404	5,470	51,208	-
Public works	271,276	136,166	30,650	15,088
Parks and recreation	64,200	22,072	-	-
Interest on long-term debt	<u>303</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 975,400</u>	<u>\$ 166,978</u>	<u>\$ 82,933</u>	<u>\$ 15,088</u>
Business-type activities:				
Water and sewer	<u>\$ 446,621</u>	<u>\$ 549,326</u>	<u>\$ 2,665</u>	<u>\$ -</u>
Total business-type activities	<u>\$ 446,621</u>	<u>\$ 549,326</u>	<u>\$ 2,665</u>	<u>\$ -</u>
Total primary government	<u>\$ 1,422,021</u>	<u>\$ 716,304</u>	<u>\$ 85,598</u>	<u>\$ 15,088</u>

General revenues:

General property taxes

Other local taxes

Unrestricted revenue from the use of money and property

Grants and contributions not restricted to specific programs

Gain (loss) on sale of assets

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
----- Primary Government -----		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (315,872)	\$ -	\$ (315,872)
(262,726)	-	(262,726)
(89,372)	-	(89,372)
(42,128)	-	(42,128)
<u>(303)</u>	<u>-</u>	<u>(303)</u>
<u>\$ (710,401)</u>	<u>\$ -</u>	<u>\$ (710,401)</u>
<u>\$ -</u>	<u>\$ 105,370</u>	<u>\$ 105,370</u>
<u>\$ -</u>	<u>\$ 105,370</u>	<u>\$ 105,370</u>
<u>\$ (710,401)</u>	<u>\$ 105,370</u>	<u>\$ (605,031)</u>
\$ 182,272	\$ -	\$ 182,272
532,313	-	532,313
6,840	2,954	9,794
16,574	-	16,574
(793)	-	(793)
<u>253,815</u>	<u>(253,815)</u>	<u>-</u>
<u>\$ 991,021</u>	<u>\$ (250,861)</u>	<u>\$ 740,160</u>
\$ 280,620	\$ (145,491)	\$ 135,129
<u>849,394</u>	<u>1,766,211</u>	<u>2,615,605</u>
<u>\$ 1,130,014</u>	<u>\$ 1,620,720</u>	<u>\$ 2,750,734</u>

Fund Financial Statements

TOWN OF TIMBERVILLE, VIRGINIA

---GOVERNMENTAL FUND---
BALANCE SHEET
 June 30, 2013

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 273,637
Receivables (net of allowance for uncollectibles):	
Property taxes	219,668
Utility taxes	4,022
Vehicle license fees	19,422
Meals and occupancy taxes	13,289
Accounts	22,745
Accrued interest	746
Due from other governmental units	15,258
Inventory, at cost	2,436
Due from other funds	<u>22,745</u>
Total assets	<u>\$ 593,968</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 36,536
Accrued compensated absences	4,573
Due to EDA fund	3,485
Deferred revenue	<u>237,658</u>
Total liabilities	<u>\$ 282,252</u>
 Fund Balance	
Nonspendable, inventory	\$ 2,436
Unassigned	<u>309,280</u>
Total fund balance	<u>\$ 311,716</u>
 Total liabilities and fund balance	<u>\$ 593,968</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
----GOVERNMENTAL FUND----
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

FUND BALANCE-TOTAL GOVERNMENTAL FUND **\$ 311,716**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.

Governmental capital assets	\$ 1,503,010	
Less accumulated depreciation	<u>(704,964)</u>	798,046

Certain revenues not available to pay for current period expenditures are not reported in the governmental fund.

Deferred revenues	\$ <u>42,972</u>	42,972
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Certain liabilities are not payable from current financial resources and therefore are not reported in the governmental fund.

Compensated absences	\$ <u>(22,720)</u>	<u>(22,720)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,130,014**

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

----GOVERNMENTAL FUND----
**STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE**
 Year Ended June 30, 2013

	General Fund
REVENUES	
General property taxes	\$ 180,749
Other local taxes	526,599
Permits, privilege fees, and regulatory licenses	2,088
Fines and forfeitures	5,470
Revenue from the use of money and property	6,840
Charges for services	158,238
Miscellaneous	2,258
Intergovernmental revenues:	
Commonwealth	73,111
Federal	40,409
Total revenues	<u>\$ 995,762</u>
 EXPENDITURES	
General government administration	\$ 315,785
Public safety	313,222
Public works	340,101
Parks and recreation	54,202
Debt service	176,512
Total expenditures	<u>\$ 1,199,822</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (204,060)</u>
 OTHER FINANCING SOURCES (USES)	
Transfers in	\$ 270,456
Transfers out	<u>(16,641)</u>
Total other financing sources (uses)	<u>\$ 253,815</u>
Net change in fund balance	\$ 49,755
 FUND BALANCE AT BEGINNING OF YEAR	<u>261,961</u>
 FUND BALANCE AT END OF YEAR	<u><u>\$ 311,716</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

----GOVERNMENTAL FUND----

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

NET CHANGE IN FUND BALANCE-TOTAL GOVERNMENTAL FUND \$ 49,755

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives.

Expenditures for capital assets	\$ 109,345	
Unrecovered cost of disposed assets	(793)	
Less current year depreciation	<u>(57,023)</u>	51,529

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental fund.

Property taxes	\$ 1,522	
Vehicle license fees	<u>5,714</u>	7,236

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 the governmental fund.

Change in accrued interest	\$ 11	
Change in long-term compensated absences	<u>(4,109)</u>	(4,098)

Repayment of loan principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments	\$ <u>176,198</u>	<u>176,198</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 280,620

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF NET POSITION
June 30, 2013

	<u>Enterprise Fund Water & Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 735,306
Restricted cash and cash equivalents, renters' deposits	29,352
Accounts receivable, less allowance for doubtful accounts of \$12,227	89,805
Accrued interest receivable	106
Container deposits	500
Total current assets	<u>\$ 855,069</u>
Noncurrent assets:	
Capital assets:	
Buildings	\$ 28,623
Utility plants, distribution and collection systems	2,639,419
Equipment	244,073
Less accumulated depreciation	<u>(1,806,227)</u>
Total noncurrent assets	<u>\$ 1,105,888</u>
Total assets	<u>\$ 1,960,957</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 14,894
Renters' deposits	29,352
Accrued compensated absences	7,560
Accrued interest payable	62
Due to other funds	22,745
Water and sewer hook-ups	6,775
Total current liabilities	<u>\$ 81,388</u>
Noncurrent liabilities:	
Bonds, notes and loans payable	<u>\$ 258,849</u>
Total noncurrent liabilities	<u>\$ 258,849</u>
Total liabilities	<u>\$ 340,237</u>
NET POSITION	
Net investment in capital assets	\$ 847,039
Unrestricted	<u>773,681</u>
Total net position	<u>\$ 1,620,720</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
---PROPRIETARY FUND---
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2013

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
OPERATING REVENUES	
Water service charges	\$ 255,777
Sewer service charges	262,735
Connection fees	18,000
Penalties and interest	12,632
Fluoride grant	2,665
Miscellaneous	182
Total operating revenues	<u>\$ 551,991</u>
OPERATING EXPENSES	
Water department	\$ 197,375
Sewer department	198,568
Depreciation	49,061
Total operating expenses	<u>\$ 445,004</u>
Operating income	<u>\$ 106,987</u>
NONOPERATING REVENUE (EXPENSE)	
Interest earned	\$ 2,954
Interest expense	(1,617)
Total nonoperating revenue (expense)	<u>\$ 1,337</u>
Income before transfers	<u>\$ 108,324</u>
TRANSFERS	
Transfers in	\$ 16,641
Transfers out	(270,456)
Total transfers	<u>\$ (253,815)</u>
Change in net position	<u>\$ (145,491)</u>
NET POSITION AT BEGINNING OF YEAR	<u>1,766,211</u>
NET POSITION AT END OF YEAR	<u><u>\$ 1,620,720</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF CASH FLOWS
 Year Ended June 30, 2013

Enterprise Fund
Water & Sewer

**CASH FLOWS FROM OPERATING
 ACTIVITIES**

Cash received from customers	\$ 545,489
Cash payments to suppliers of goods and services	(286,992)
Cash payments to employees	(112,024)
Fluoride grant	<u>2,665</u>
Net cash provided by (used in) operating activities	<u>\$ 149,138</u>

**CASH FLOWS FROM NONCAPITAL
 FINANCING ACTIVITIES**

Operating transfers from other funds	\$ 16,641
Operating transfers to other funds	(270,456)
Payment from other fund	<u>283</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ (253,532)</u>

**CASH FLOWS FROM CAPITAL AND
 RELATED FINANCING ACTIVITIES**

Borrowings used for infrastructure improvements	\$ 258,849
Acquisition of property and equipment	(244,055)
Principal payments on long-term borrowings	(34,105)
Interest expense	<u>(1,604)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (20,915)</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

---PROPRIETARY FUND---
STATEMENT OF CASH FLOWS
 Year Ended June 30, 2013

Enterprise Fund
Water & Sewer

**CASH FLOWS FROM INVESTING
 ACTIVITIES**

Interest earned on investments	\$ 3,375
Net cash provided by (used in) investing activities	\$ 3,375
Net increase (decrease) in cash	\$ (121,934)
Cash and cash equivalents:	
Beginning	<u>886,592</u>
Ending	<u>\$ 764,658</u>

**RECONCILIATION OF OPERATING
 INCOME TO NET CASH PROVIDED
 BY (USED IN) OPERATING ACTIVITIES**

Operating income	\$ 106,987
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation	49,061
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,937)
Increase (decrease) in accounts payable and accrued expenses	(3,073)
Increase (decrease) in renters' deposits	<u>1,100</u>
Net cash provided by (used in) operating activities	<u>\$ 149,138</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
---FIDUCIARY FUND---
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	<u>EDA</u> <u>Fund (Agency)</u>
ASSETS	
Due from general fund	\$ 3,485
Total assets	<u>\$ 3,485</u>
LIABILITIES	
Amounts held for others	\$ 3,485
Total liabilities	<u>\$ 3,485</u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA

---FIDUCIARY FUND---
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2013

	<u>EDA</u> <u>Fund (Agency)</u>
ADDITIONS	
Fees (revenues)	\$ 3,500
Total additions	<u>\$ 3,500</u>
DEDUCTIONS	
Wire fee	<u>\$ 15</u>
Total deductions	<u>\$ 15</u>
Changes in net position	\$ 3,485
NET POSITION AT BEGINNING OF YEAR	<u>-</u>
NET POSITION AT END OF YEAR	<u><u>\$ 3,485</u></u>

See Notes to Financial Statements.

TOWN OF TIMBERVILLE, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Timberville, Virginia, conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the most significant policies:

A. Reporting Entity

The Town of Timberville, Virginia, is a municipality governed by a six-member Town Council and Mayor. Daily operations are conducted by a Town Manager. In determining the reporting entity, the Town complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity." Based on the criteria provided in that Statement there are no agencies or entities that should be presented with the Town.

B. Governmental Accounting Standards

The Town follows the general provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement identifies the financial reporting requirements of state and local governments.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable 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 or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Town government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Town accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Town’s assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 45 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, sales and use taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

The General Fund is the Town's only governmental fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The Town reports the following major proprietary fund:

Water and Sewer Fund-accounts for the activities related to the provision of water and sewer services to Town's businesses, residents, schools, and churches. It operates the water treatment plant, water distribution systems, sewer collection systems, and pump stations.

Fiduciary Fund Financial Statements

The Town's fiduciary fund is presented in the fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the governmental-wide financial statements.

Fiduciary funds are used to account for assets held by the town in a trustee capacity or as agent for individuals, private organizations, and other governments. The fiduciary fund of the Town is the Economic Development Authority (EDA) Fund. Since this fund is custodial in nature (i.e., assets equal liabilities), it does not involve the measurement of results of operations.

E. Assets, Liabilities and Equity

Cash and Cash Equivalents

For purposes of reporting cash flows, the Town considers all cash on hand, checking accounts, savings accounts, money market funds and highly liquid instruments with a maturity of three months or less to be cash and cash equivalents. All certificates of deposit, regardless of maturity, are considered to be cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical collection data and specific account analysis. Major receivable balances for the governmental activities include sales and use taxes, meals taxes, transient occupancy taxes, and utility taxes. Business-type activities report utilities and interest earnings as their major receivables. The Town grants credit to the customers of its water, sewer and trash systems. The customers are either local businesses or residents.

In the fund financial statements, major receivable balances and the allowances for uncollectible accounts are the same as those in the governmental and business-type activities.

Property Taxes

Real estate and personal property taxes are assessed annually by Rockingham County, Virginia, for all property of record as of January 1. Property taxes attach as an enforceable lien on property as of January 1. The Town collects real estate and personal property taxes on an annual basis with due dates of December 31 and February 28, respectively. The portion of the tax receivable that is not collected within 45 days after June 30 is shown as deferred revenue in the fund financial statements. A penalty of 10 percent of the tax is assessed after the applicable payment date.

The taxes receivable balance at June 30, 2013, includes amounts not yet billed or received from the January 1, 2013, levy. These items are included in deferred revenue since these taxes are restricted for use until fiscal year 2014. The real estate taxes will be due December 31, 2013, and the personal property taxes will be due February 28, 2014.

The Town calculates its allowance for uncollectible delinquent property tax accounts using historical collection data and specific account analysis. The allowance at June 30, 2013, amounted to \$8,316.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Interfund Receivables and Payables

During the course of operations, transactions occur that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The Town's General Fund has a due from the Water and Sewer Fund in the amount of \$22,745 at June 30, 2013.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in the governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)*Government-Wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns. In general, the Town defines capital assets as assets with an initial, individual cost of more than \$1,000 (not rounded) and an estimated useful life in excess of one year. Capital assets are carried at historical cost except for donated capital assets that are recorded at their estimated fair value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	20-50 years
Utility System	25-50 years
Machinery and Equipment	5-15 years
Infrastructure	20-40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt

The accounting treatment of the long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but not used vacation and sick pay benefits. Vacation and sick pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported for compensated absences in governmental funds only to the extent that it is expected to be liquidated with expendable available financial resources.

Deferred Revenue

Deferred revenue is recorded when asset recognition criteria (measurable) have been met, but revenue recognition (available) criteria have not been met.

Equity Classifications*Government-Wide Statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets-consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position-consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These assets are reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted-all other net position is reported in this category.

Fund Statements

In the governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable** - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted** - Amounts that can be spent only for specific purposes because of the Town Charter, the Town Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by Town Council ordinance or resolution. This includes the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Town Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by Town Council.
- **Unassigned** - All amounts not included in other spendable classifications.

Proprietary fund equity is classified the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and ExpensesGovernmental Fund Revenues

As mentioned above, governmental fund revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, property taxes not collected within 45 days after year-end are reflected as deferred revenues-uncollected property taxes. The Town recognizes sales and utility taxes remitted to the Town as revenues and receivables in the month preceding receipt. Licenses and permits are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of specific expenditure.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. They also include all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by function for the governmental fund and by operating and nonoperating for the proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

Advertising

The Town expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expenditures in the General Fund were \$1,082, for the year ended June 30, 2013. Advertising expense in the Water and Sewer Fund was \$-, for the year ended June 30, 2013.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)Fringe benefits

Fringe benefits of the Town include:

- a. Pension Plan - Employees of the Town participate in the Virginia Retirement System (VRS). VRS is administered by the Commonwealth, which bills the Town for the employer share of contributions. VRS is obligated to pay a monthly benefit to participants upon retirement with the amount of the benefit depending on length of service and earnings.
- b. Social Security System - All employees participate in the Federal Social Security Program. The employer share of FICA taxes for the employees is the responsibility of the Town.
- c. Health Insurance - The Town provides health insurance coverage for all full-time, salaried permanent employees.

G. Estimates and Assumptions

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

H. Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

I. Recently Issued and Adopted Accounting Pronouncements

In December, 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 does not have any impact on the Town's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 47,200	\$ -	\$ -	\$ 47,200
Total capital assets not being depreciated	<u>\$ 47,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,200</u>
Capital assets being depreciated				
Buildings	\$ 508,305	\$ -	\$ -	\$ 508,305
Machinery and equipment	462,254	24,663	(1,612)	485,305
Infrastructure	<u>377,518</u>	<u>84,682</u>	<u>-</u>	<u>462,200</u>
Total capital assets being depreciated	<u>\$ 1,348,077</u>	<u>\$ 109,345</u>	<u>\$ (1,612)</u>	<u>\$ 1,455,810</u>
Less accumulated depreciation for				
Buildings	\$ 180,203	\$ 13,323	\$ -	\$ 193,526
Machinery and equipment	314,337	31,714	(819)	345,232
Infrastructure	<u>154,220</u>	<u>11,986</u>	<u>-</u>	<u>166,206</u>
Total accumulated depreciation	<u>\$ 648,760</u>	<u>\$ 57,023</u>	<u>\$ (819)</u>	<u>\$ 704,964</u>
Total capital assets being depreciated, net	<u>\$ 699,317</u>	<u>\$ 52,322</u>	<u>\$ (793)</u>	<u>\$ 750,846</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 746,517</u>	<u>\$ 52,322</u>	<u>\$ (793)</u>	<u>\$ 798,046</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Utility system	\$ 2,395,364	\$ 244,055	\$ -	\$ 2,639,419
Buildings	28,623	-	-	28,623
Machinery and equipment	<u>244,073</u>	<u>-</u>	<u>-</u>	<u>244,073</u>
Total capital assets being depreciated	<u>\$ 2,668,060</u>	<u>\$ 244,055</u>	<u>\$ -</u>	<u>\$ 2,912,115</u>
Less accumulated depreciation for				
Utility system	\$ 1,556,868	\$ 31,185	\$ -	\$ 1,588,053
Buildings	13,592	1,529	-	15,121
Machinery and equipment	<u>186,706</u>	<u>16,347</u>	<u>-</u>	<u>203,053</u>
Total accumulated depreciation	<u>\$ 1,757,166</u>	<u>\$ 49,061</u>	<u>\$ -</u>	<u>\$ 1,806,227</u>
Total capital assets being depreciated, net	<u>\$ 910,894</u>	<u>\$ 194,994</u>	<u>\$ -</u>	<u>\$ 1,105,888</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 910,894</u>	<u>\$ 194,994</u>	<u>\$ -</u>	<u>\$ 1,105,888</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

GOVERNMENTAL ACTIVITIES

General government administration	\$ 5,477
Public safety	25,203
Public works	14,071
Parks and recreation	<u>12,272</u>

Total depreciation expense-governmental activities	<u>\$ 57,023</u>
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BUSINESS-TYPE ACTIVITIES

Water and sewer	<u>\$ 49,061</u>
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Total depreciation expense-business-type activities	<u>\$ 49,061</u>
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Note 7. Deferred Revenue

The following is a summary of deferred revenue by fund/activity at June 30, 2013:

Fund Statements

	<u>General Fund</u>
Property taxes billed in fiscal year 2014	\$ 194,686
Uncollected property tax billing	24,018
Uncollected vehicle license billing	<u>18,954</u>
	<u>\$ 237,658</u>

Government-Wide Statements

	<u>Governmental Activities</u>
Property taxes billed in fiscal year 2014	<u>\$ 194,686</u>

Note 8. Long-Term Debt

A summary of long-term debt activity for the year ended June 30, 2013, is as follows. Additional detailed information is available below and on the following page.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within One Year</u>
<u>Governmental-type activities</u>					
<i>General Fund</i>					
Loans payable:					
Farmers and Merchants Bank	\$ 125,146	\$ -	\$ (125,146)	\$ -	\$ -
Farmers and Merchants Bank	<u>51,052</u>	<u>-</u>	<u>(51,052)</u>	<u>-</u>	<u>-</u>
	<u>\$ 176,198</u>	<u>\$ -</u>	<u>\$ (176,198)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)**Business-type activities***Water and Sewer Fund*

Loans payable:

Farmers and Merchants Bank	\$ 17,850	\$ -	\$ (17,850)	\$ -	\$ -
Farmers and Merchants Bank	16,255	-	(16,255)	-	-
Farmers and Merchants Bank	-	258,849	-	258,849	-
	<u>\$ 34,105</u>	<u>\$ 258,849</u>	<u>\$ (34,105)</u>	<u>\$ 258,849</u>	<u>\$ -</u>

The Town signed a financing agreement with Farmers and Merchants Bank on February 7, 2013. Proceeds from the demand note are to be used for infrastructure improvements in the Water and Sewer Fund. The loan bears interest at a rate of 2.19 percent and is secured by the assets of the Town. The loan states that the maximum amount of funds available to the Town is \$1,500,000. The Town had borrowed \$258,849 as of June 30, 2013. Commencing March 7, 2013, and continuing monthly thereafter, the Town is required to make interest payments. The loan matures February 7, 2015; however, the Town plans to secure permanent financing when the improvements are complete. Total interest expense incurred on the loan for the year ended June 30, 2013 was \$1,532.

Debt Maturity

Annual requirements to amortize long-term debt and related interest at June 30, 2013, are as follows:

Principal:

	Farmers and Merchants Bank
2014	\$ -
2015	<u>258,849</u>
	<u>\$ 258,849</u>

Interest:

	Farmers and Merchants Bank
2014	\$ 5,669
2015	<u>3,779</u>
	<u>\$ 9,448</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Interfund Transfers

Interfund transfers during the year ended June 30, 2013, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 270,456	\$ 16,641
Water and Sewer Fund	<u>16,641</u>	<u>270,456</u>
	<u>\$ 287,097</u>	<u>\$ 287,097</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 10. Defined Benefit Pension PlanPlan Description

The Town contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension administered by the Virginia Retirement System. All full-time, salaried permanent 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 have service credits before July 1, 2010, 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 thirty years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010, and who have no service credits before July 1, 2010, 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 five years of service credit or age 50 with at least twenty-five 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.

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined Benefit Pension Plan (Continued)

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 percent. The retirement multiplier for sheriffs and regional jail superintendents is 1.85 percent. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70 percent or 1.85 percent as elected by the employer. 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 percent; under Plan 2, the COLA cannot exceed 6.00 percent. During years of no inflation or deflation, the COLA is 0.00 percent. 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 that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report is available at the VRS website (www.varetire.org) or may be obtained by writing to the Systems Chief Financial Officer at P. O. Box 2500, Richmond, VA 23218-2500.

Special Elected Benefit

The Town has elected to fund the Law Enforcement Officers (LEOS) retirement benefit. LEOS provides a package of special retirement benefits for law enforcement officers and their survivors. Employees eligible for LEOS are covered by VRS but have enhanced benefit formulas because of the nature of their jobs. The Town's contribution rate was increased to cover enrollment in this program.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their compensation toward their retirement. The employer has assumed this 5 percent member contribution for employees hired prior to July 1, 2010. For employees hired after that date, the member contribution is a pre-tax salary reduction. In addition, the Town of Timberville, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town of Timberville's contribution rate for the fiscal year ended June 30, 2013, was 14.28 percent (excluding 5 percent member contribution) of the annual covered payroll.

NOTES TO FINANCIAL STATEMENTS

Note 10. Defined Benefit Pension Plan (Continued)Annual Pension Cost

For 2013, the Town's annual pension cost of \$83,669 for VRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.00 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.75 percent to 5.60 percent per year for general government employees and 3.50 percent to 4.75 percent per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs and (c) 2.50 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50 percent. The actuarial value of the Plan'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 level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, for the Unfunded Actuarial Accrued Liability (UAAL), was 20 years.

Three-Year Trend Information for the Town of Timberville

<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	\$ 56,297	100%	\$ -
6/30/12	58,365	100%	-
6/30/13	83,669	100%	-

Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 75.37 percent funded. The actuarial accrued liability for benefits was \$1,786,677, and the actuarial value of assets was \$1,346,661, resulting in an unfunded actuarial accrued liability (UAAL) of \$440,016. The covered payroll (annual payroll of active employees covered by the plan) was \$438,174, and the ratio of the UAAL to the covered payroll was 100.42 percent.

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

Note 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in a public entity risk pool that operates as common risk management and insurance programs for member municipalities. The Town is not self-insured.

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

**Required Supplementary Information-
Other than Management's Discussion and Analysis**

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
General property taxes	\$ 173,417	\$ 180,749	\$ 7,332
Other local taxes	505,900	526,599	20,699
Permits, privilege fees, and regulatory licenses	550	2,088	1,538
Fines and forfeitures	7,500	5,470	(2,030)
Revenue from the use of money and property	100	6,840	6,740
Charges for services	154,000	158,238	4,238
Miscellaneous	1,000	2,258	1,258
Intergovernmental revenues:			
Commonwealth	67,233	73,111	5,878
Federal	4,000	40,409	36,409
Total revenues	<u>\$ 913,700</u>	<u>\$ 995,762</u>	<u>\$ 82,062</u>
EXPENDITURES			
General government administration	\$ 283,276	\$ 315,785	\$ (32,509)
Public safety	307,601	313,222	(5,621)
Public works	274,003	340,101	(66,098)
Parks and recreation	44,017	54,202	(10,185)
Debt service	192,796	176,512	16,284
Total expenditures	<u>\$ 1,101,693</u>	<u>\$ 1,199,822</u>	<u>\$ (98,129)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (187,993)</u>	<u>\$ (204,060)</u>	<u>\$ (16,067)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 270,456	\$ 270,456
Transfers out	<u>-</u>	<u>(16,641)</u>	<u>(16,641)</u>
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 253,815</u>	<u>\$ 253,815</u>
Net change in fund balance	<u>\$ (187,993)</u>	<u>\$ 49,755</u>	<u>\$ 237,748</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>261,961</u>	<u>261,961</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 73,968</u></u>	<u><u>\$ 311,716</u></u>	<u><u>\$ 237,748</u></u>

TOWN OF TIMBERVILLE, VIRGINIA

SCHEDULE OF FUNDING PROGRESS -
DEFINED BENEFIT PENSION PLAN

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) --Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/10	\$ 1,294,939	\$ 1,651,005	\$ 356,066	78.43%	\$ 422,650	84.25%
6/30/11	1,332,630	1,741,871	409,241	76.51%	422,650	96.83%
6/30/12	1,346,661	1,786,677	440,016	75.37%	438,174	100.42%

Other Supplementary Information

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL PROPERTY TAXES			
Real estate taxes	\$ 150,000	\$ 156,181	\$ 6,181
Personal property taxes	20,917	20,639	(278)
Penalties and interest	2,500	3,929	1,429
	<u>\$ 173,417</u>	<u>\$ 180,749</u>	<u>\$ 7,332</u>
OTHER LOCAL TAXES			
Sales tax	\$ 77,100	\$ 90,347	\$ 13,247
Utility taxes	50,300	48,874	(1,426)
Bank stock tax	90,000	86,789	(3,211)
Cigarette tax	28,500	25,760	(2,740)
Meals tax	125,000	134,034	9,034
Communications tax	35,000	33,523	(1,477)
Business and professional licenses	60,000	71,395	11,395
Vehicle license fees	40,000	35,877	(4,123)
	<u>\$ 505,900</u>	<u>\$ 526,599</u>	<u>\$ 20,699</u>
PERMITS, PRIVILEGE FEES AND REGULATORY LICENSES			
Zoning fees	\$ 500	\$ 2,048	\$ 1,548
Yard sale permits	50	40	(10)
	<u>\$ 550</u>	<u>\$ 2,088</u>	<u>\$ 1,538</u>
FINES AND FORFEITURES			
Court fines	<u>\$ 7,500</u>	<u>\$ 5,470</u>	<u>\$ (2,030)</u>
REVENUE FROM THE USE OF MONEY AND PROPERTY			
Interest earned	<u>\$ 100</u>	<u>\$ 6,840</u>	<u>\$ 6,740</u>
CHARGES FOR SERVICES			
Trash collection fees	\$ 135,000	\$ 136,166	\$ 1,166
Parks and recreation:			
Daily and seasonal passes	10,000	13,832	3,832
Concession stand	6,500	6,085	(415)
Rental fees	2,000	2,080	80
Swimming lessons	500	75	(425)
	<u>\$ 154,000</u>	<u>\$ 158,238</u>	<u>\$ 4,238</u>
MISCELLANEOUS			
VML safety grant	\$ -	\$ 1,000	\$ 1,000
Other	1,000	1,258	258
	<u>\$ 1,000</u>	<u>\$ 2,258</u>	<u>\$ 1,258</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF REVENUES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
INTERGOVERNMENTAL REVENUES			
Commonwealth			
Rolling stock tax	\$ 2,150	\$ 2,491	\$ 341
Law enforcement grant	40,000	40,552	552
VDOT winter storm assistance	3,000	7,985	4,985
Personal property tax reimbursement	14,083	14,083	-
Fire program grant	8,000	8,000	-
	<u>\$ 67,233</u>	<u>\$ 73,111</u>	<u>\$ 5,878</u>
Federal			
DMV grants - police	\$ 4,000	\$ 2,656	\$ (1,344)
Safe Routes to School Program grant	-	12,814	12,814
FEMA storm grant, passed through Virginia Department of Energy Management	-	24,939	24,939
	<u>\$ 4,000</u>	<u>\$ 40,409</u>	<u>\$ 36,409</u>
Total revenues	<u>\$ 913,700</u>	<u>\$ 995,762</u>	<u>\$ 82,062</u>

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GENERAL GOVERNMENT ADMINISTRATION			
General Government -			
Mayor and council fees	\$ 13,200	\$ 13,200	\$ -
Salary - Town Manager	58,526	60,220	(1,694)
- Clerk/Treasurer	42,846	46,958	(4,112)
- Office Assistant	31,515	32,850	(1,335)
- Part-time office help	6,240	6,617	(377)
Social security taxes	10,643	10,654	(11)
Workmen's compensation	467	3,064	(2,597)
Retirement	24,292	24,292	-
Advertising	1,000	1,082	(82)
Billing expense	-	135	(135)
Donations	16,750	17,123	(373)
Dues, manuals, registration fees	2,483	2,037	446
Training and seminars	1,500	-	1,500
Cleaning	1,200	1,200	-
Heat	500	-	500
Miscellaneous	200	698	(498)
Computer maintenance and supplies	2,000	5,252	(3,252)
Office supplies	3,000	4,925	(1,925)
Other office expenses	4,700	4,904	(204)
Postage	2,000	2,790	(790)
Planning and zoning	100	-	100
Historic planning district expenses	-	1,000	(1,000)
Insurance - general	9,150	7,945	1,205
- health/flex	23,428	26,942	(3,514)
- group	886	892	(6)
Professional - accounting	8,000	8,300	(300)
- legal	10,000	19,178	(9,178)
- planners	1,600	750	850
Telephone	6,550	11,090	(4,540)
Uniforms	500	304	196
	<u>\$ 283,276</u>	<u>\$ 314,402</u>	<u>\$ (31,126)</u>
Capital Outlay			
General government	<u>\$ -</u>	<u>\$ 1,383</u>	<u>\$ (1,383)</u>
Total general government administration	<u>\$ 283,276</u>	<u>\$ 315,785</u>	<u>\$ (32,509)</u>

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
PUBLIC SAFETY			
Police Department			
Police Chief salary	\$ 48,223	\$ 54,619	\$ (6,396)
Police salaries	113,072	118,007	(4,935)
Part-time officers' salaries	5,000	5,539	(539)
Social security taxes	12,722	13,187	(465)
Workmen's compensation	4,600	3,763	837
Retirement	29,485	29,485	-
Wireless air cards - laptops	2,400	1,560	840
Police car - gas and oil	10,000	9,157	843
- maintenance	3,500	4,319	(819)
Computer software maintenance	2,000	2,106	(106)
Line of Duty Act	1,500	1,000	500
Miscellaneous	500	884	(384)
Dues and subscriptions	2,300	2,245	55
Uniforms and cleaning	1,500	296	1,204
Supplies	2,000	4,811	(2,811)
Reimburse attorney fees	750	600	150
Translation services	175	184	(9)
Professional development	1,000	963	37
Insurance - health/flex	28,800	28,416	384
- group	774	769	5
Repairs and maintenance, building	100	32	68
	<u>\$ 270,401</u>	<u>\$ 281,942</u>	<u>\$ (11,541)</u>
Other			
Fire program funds	<u>\$ 7,200</u>	<u>\$ 8,000</u>	<u>\$ (800)</u>
Capital Outlay			
Public safety	<u>\$ 30,000</u>	<u>\$ 23,280</u>	<u>\$ 6,720</u>
Total public safety	<u>\$ 307,601</u>	<u>\$ 313,222</u>	<u>\$ (5,621)</u>
PUBLIC WORKS			
Buildings and Streets			
Maintenance supervisor salary	\$ 51,706	\$ 54,382	\$ (2,676)
Social security taxes	3,956	3,896	60
Workmen's compensation	173	1,124	(951)
Retirement	9,452	9,452	-
Health insurance	9,116	7,946	1,170
Buildings and grounds maintenance	900	7,698	(6,798)
Christmas lights expense	1,050	2,118	(1,068)
Vehicles - gas and oil	13,000	9,920	3,080
- maintenance	250	1,173	(923)

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

GENERAL FUND
STATEMENT OF EXPENDITURES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Equipment - repairs and maintenance	\$ 600	\$ 964	\$ (364)
Electricity - other	10,100	8,045	2,055
- street lights	28,000	27,816	184
Heat	1,200	1,292	(92)
Small tools	1,500	1,171	329
Supplies	-	468	(468)
Uniforms and rags	-	534	(534)
Snow removal	-	118	(118)
	<u>\$ 131,003</u>	<u>\$ 138,117</u>	<u>\$ (7,114)</u>
Sanitation			
Disposal contract	<u>\$ 128,000</u>	<u>\$ 119,575</u>	<u>\$ 8,425</u>
Capital Outlay			
Public works	<u>\$ 15,000</u>	<u>\$ 82,409</u>	<u>\$ (67,409)</u>
Total public works	<u>\$ 274,003</u>	<u>\$ 340,101</u>	<u>\$ (66,098)</u>
PARKS AND RECREATION			
General			
Salaries - managers	\$ 10,000	\$ 9,773	\$ 227
- others	15,000	18,783	(3,783)
Social security taxes	1,913	2,186	(273)
Chemicals	2,000	3,198	(1,198)
Electricity	7,300	6,359	941
Workmen's compensation	904	597	307
Repairs and maintenance - buildings and grounds	1,500	1,891	(391)
- equipment	-	790	(790)
Supplies	400	888	(488)
Miscellaneous	-	42	(42)
Concession expenses	5,000	7,010	(2,010)
Permits	-	40	(40)
Sales tax	-	371	(371)
	<u>\$ 44,017</u>	<u>\$ 51,928</u>	<u>\$ (7,911)</u>
Capital Outlay			
Parks and recreation	<u>\$ -</u>	<u>\$ 2,274</u>	<u>\$ (2,274)</u>
Total parks and recreation	<u>\$ 44,017</u>	<u>\$ 54,202</u>	<u>\$ (10,185)</u>
DEBT SERVICE			
Maintenance building principal	\$ 125,146	\$ 125,146	\$ -
Maintenance building interest	228	228	-
Capital outlay loan principal	67,336	51,052	16,284
Capital outlay loan interest	86	86	-
Total debt service	<u>\$ 192,796</u>	<u>\$ 176,512</u>	<u>\$ 16,284</u>
Total expenditures	<u>\$ 1,101,693</u>	<u>\$ 1,199,822</u>	<u>\$ (98,129)</u>

TOWN OF TIMBERVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-
BUDGET AND ACTUAL
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUES			
Water service charges	\$ 275,000	\$ 255,777	\$ (19,223)
Sewer service charges	265,000	262,735	(2,265)
Connection fees	36,000	18,000	(18,000)
Penalties and interest	1,500	12,632	11,132
Fluoride grant	-	2,665	2,665
Miscellaneous	<u>1,200</u>	<u>182</u>	<u>(1,018)</u>
Total operating revenues	\$ 578,700	\$ 551,991	\$ (26,709)
OPERATING EXPENSES			
Water department	\$ 205,590	\$ 197,375	\$ 8,215
Sewer department	196,631	198,568	(1,937)
Depreciation	<u>49,300</u>	<u>49,061</u>	<u>239</u>
Total operating expenses	\$ 451,521	\$ 445,004	\$ 6,517
Operating income	\$ 127,179	\$ 106,987	\$ (20,192)
NONOPERATING REVENUE (EXPENSE)			
Interest earned	\$ 200	\$ 2,954	\$ 2,754
Interest expense	<u>(1,617)</u>	<u>(1,617)</u>	<u>-</u>
Total nonoperating revenue (expense)	\$ (1,417)	\$ 1,337	\$ 2,754
Income before transfers	\$ 125,762	\$ 108,324	\$ (17,438)
TRANSFERS			
Transfers in	\$ -	\$ 16,641	\$ 16,641
Transfers out	<u>-</u>	<u>(270,456)</u>	<u>(270,456)</u>
	\$ -	\$ (253,815)	\$ (253,815)
Change in net position	\$ 125,762	\$ (145,491)	\$ (271,253)
NET POSITION AT BEGINNING OF YEAR	<u>1,766,211</u>	<u>1,766,211</u>	<u>-</u>
NET POSITION AT END OF YEAR	<u>\$ 1,891,973</u>	<u>\$ 1,620,720</u>	<u>\$ (271,253)</u>

TOWN OF TIMBERVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
WATER DEPARTMENT			
Salaries	\$ 81,725	\$ 77,261	\$ 4,464
Social security taxes	6,252	5,758	494
Retirement	14,939	14,046	893
Advertising	100	-	100
Bad debts	-	3,255	(3,255)
Billing expense	4,300	4,247	53
Chemicals	4,200	6,957	(2,757)
Dues and manuals	700	350	350
Training schools, seminars	1,000	934	66
Electricity	17,332	17,139	193
Lab fees	8,550	6,103	2,447
Office supplies	300	82	218
Professional fees	9,000	13,679	(4,679)
Vehicle gas and oil	1,300	1,759	(459)
Uniforms and laundry	1,000	1,163	(163)
Permits	-	1,331	(1,331)
Telephone - filtration plant	1,200	1,776	(576)
Answering service	900	840	60
Water purchases	1,600	2,215	(615)
Workmen's compensation	2,000	1,611	389
Insurance - general	4,600	3,972	628
- health	12,000	10,400	1,600
- group	392	392	-
Repairs and maintenance:			
Equipment	30,000	15,066	14,934
Vehicles	750	6,556	(5,806)
Small tools	250	76	174
Supplies	1,000	162	838
Miss Utility	200	245	(45)
	<u>\$ 205,590</u>	<u>\$ 197,375</u>	<u>\$ 8,215</u>
SEWER DEPARTMENT			
Salaries	\$ 30,026	\$ 34,814	\$ (4,788)
Social security taxes	2,297	2,665	(368)
Retirement	5,489	6,382	(893)
Billing expense	1,100	1,724	(624)
Lab fees	2,000	1,716	284
Professional fees	9,000	4,150	4,850
Vehicle gas and oil	1,175	2,085	(910)
Uniforms and laundry	500	500	-

(Continued)

TOWN OF TIMBERVILLE, VIRGINIA

WATER AND SEWER FUND
STATEMENT OF OPERATING EXPENSES, COMPARED TO BUDGET
Year Ended June 30, 2013

	<u>Budget - Original & Final</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Workmen's compensation	\$ 2,000	\$ 730	\$ 1,270
Insurance - general	4,600	3,972	628
- health	6,000	5,200	800
- group	144	144	-
Repairs and maintenance:			
Buildings and grounds	1,200	2,657	(1,457)
Equipment	7,000	5,338	1,662
Vehicles	1,300	5,924	(4,624)
Electricity	2,800	2,955	(155)
Sewer disposal contract	120,000	117,612	2,388
	<u>\$ 196,631</u>	<u>\$ 198,568</u>	<u>\$ (1,937)</u>
DEPRECIATION	<u>\$ 49,300</u>	<u>\$ 49,061</u>	<u>\$ 239</u>
Total operating expenses	<u><u>\$ 451,521</u></u>	<u><u>\$ 445,004</u></u>	<u><u>\$ 6,517</u></u>

TOWN OF TIMBERVILLE, VIRGINIA

SCHEDULE OF CAPITAL OUTLAYS
Year Ended June 30, 2013**GENERAL FUND**

Laptop (Town Manager)	\$ 1,383
2013 Dodge Charger	23,280
Park fence repairs	2,274
Safe Routes to School Program grant, infrastructure	13,083
Church Street project - sidewalks	<u>69,325</u>

Total general fund \$ 109,345

WATER AND SEWER FUND

Water tank (engineering fees)	\$ 10,644
Sparmine project (engineering fees)	10,644
Lone Pine projects (engineering fees)	21,289
Church Street project - water	118,070
Church Street project - sewer	<u>83,408</u>

Total water and sewer fund \$ 244,055

**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 Town Council
Town of Timberville
Timberville, VA 22853

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary fund of the Town of Timberville, 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 Timberville's basic financial statements, and have issued our report thereon dated October 4, 2013.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control over financial reporting to be material weaknesses.

1. Proper internal control is not always possible due to the relatively small number of persons involved in processing transactions. We recognize that because of the small size of the Town, it may not be economically feasible to have adequate segregation of duties but we are required to report this condition under our professional responsibilities.

The Town has segregated certain duties of its employees to help prevent or promptly detect errors in financial reporting. The employees appear to perform their duties in a structured and conscientious manner. The problem is that with a small staff, it is hard to totally divide the functions of executing a transaction, recording the transaction, and keeping custody of the assets.

In the future, the Town plans to continue to segregate employee duties as much as possible. The Town Council and Officials also plan to continue to be actively involved in overseeing the Town's financial operations.

2. The management and staff of the Town lack the expertise to reconcile certain accounts, maintain depreciation schedules, and make all adjusting entries necessary to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide basic accounting assistance such as reconciling certain accounts, maintaining depreciation schedules, and proposing journal entries. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit services providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.

3. The management and staff of the Town lack the expertise to prepare financial statements in accordance with generally accepted accounting standards. As a result of this deficiency in internal control, the Town's financial statements may be misstated without the assistance and expertise of a third party.

The management of the Town has enlisted our firm to provide assistance in drafting the Town's financial statements. Professional standards indicate that it is acceptable for the auditor to perform such nonaudit service providing independence is not impaired. However, the auditor cannot be considered part of the Town's internal control and this matter is required to be communicated to you.

Management believes this practice to be acceptable and cost beneficial to the Town.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Timberville's financial statements are free of 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*.

Response to Findings

The Town of Timberville's response to the findings identified in our audit is described under the material weaknesses reported above. The Town of Timberville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Young, Nicholas, Branner & Phillips, LLP

Harrisonburg, VA
October 4, 2013