

TOWN OF KILMARNOCK, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

TOWN OF KILMARNOCK, VIRGINIA

PRINCIPAL OFFICIALS

TOWN COUNCIL AND EXECUTIVE OFFICERS

Mayor

Raymond C. Booth Jr. (1)

Vice-Mayor

Emerson Gravatt

Chief of Police

Michael S. Bedell

Town Manager

Tom Saunders

Town Treasurer

Judy G. Stevens

Town Attorney

Paul C. Stamm, Jr.

Town Clerk

Cindy Balderson

COUNCIL MEMBERS

Shawn Donahue
William L. Smith
Rebecca Tebbs Nunn

Howard Straughan
Mae P. Umphlett

COMMITTEES

Administration and Finance

Howard Straughan
Shawn Donahue
William L. Smith
Rebecca Tebbs Nunn

Infrastructure-Water/Sewer

Rebecca Tebbs Nunn
William L. Smith
Howard Straughan

Kilmarnock Town Centre

Howard Straughan
Rebecca Tebbs Nunn
Emerson Gravatt

Economic Development

William L. Smith
Mae P. Umphlett
Emerson Gravatt

Infrastructure-Streets/Sidewalks

Shawn Donahue
Rebecca Tebbs Nunn
William L. Smith

Public Safety - Police

Mae P. Umphlett
Shawn Donahue
Emerson Gravatt

Emergency Preparedness

Shawn Donahue
Emerson Gravatt
Mae P. Umphlett

(1) Ex-Officio Member of all other Committees

TOWN OF KILMARNOCK, VIRGINIA

Financial Report
Year Ended June 30, 2013

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Kilmarnock, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-11, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

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

The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of the Town of Kilmarnock, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Kilmarnock, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
December 17, 2013

Town of Kilmarnock Management's Discussion and Analysis

The following discussion provides an overview and analysis of the Town of Kilmarnock's (Town) financial activities for the fiscal year ended June 30, 2013. Please read this information in conjunction with the Town's audited financial statements as reported herein.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Kilmarnock, on a government-wide basis exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$11.1 million (net position). Of this amount, \$3.8 million (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The total assets of the Town's governmental activities for fiscal year ended June 30, 2013 were \$7.2 million.
- The General Fund reported an excess of revenues over expenditures of \$0.6 million before other financing sources (uses).
- For the year ended June 30, 2013, the Town of Kilmarnock's business-type activities report a negative change in net position of \$0.2 million.
- The Town's general obligation bonds decreased by \$2.3 million. The decrease of \$2.3 million over the prior year represents the repayment of debt service.

Overview of the Financial Statements

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

Government-wide financial statements

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents all of the Town's permanent accounts or assets, deferred outflows, liabilities, deferred inflows and the resulting net position. The difference between assets (including deferred outflows of resources) and liabilities (including deferred inflows of resources) is reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other non-financial factors will also need to be considered to determine the overall financial position of the Town.

The *Statement of Activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, *regardless of the timing of related cash flows*. Thus, some transactions reported in this statement will result in cash flows in future fiscal periods.

Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government administration, public safety, public works, community development, and interest paid on long-term debt. The business-type activities are for water and sewer services.

Fund financial statements

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

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

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

Proprietary Funds - The Town maintains only one type of proprietary fund, the enterprise fund. These funds report the same functions presented as business-type activities in the government-wide financial statements. The Town accounts for both its water and sewer systems in enterprise funds.

Notes to the Financial Statements

The notes provide additional information and details that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information including budgetary comparisons for the general fund and progress in funding its obligation to provide pension and other post-employment benefits to its employees.

Government-Wide Financial Analysis

The following table reflects the condensed Summary of Net Position as presented in the government-wide financial statements:

Statement of Net Position						
As of June 30, 2013 and 2012						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 4,332,152	\$ 3,676,484	\$ 955,569	\$ 3,279,030	\$ 5,287,721	\$ 6,955,514
Capital assets	2,850,512	2,893,836	7,536,996	7,674,675	10,387,508	10,568,511
Total assets	<u>\$ 7,182,664</u>	<u>\$ 6,570,320</u>	<u>\$ 8,492,565</u>	<u>\$ 10,953,705</u>	<u>\$ 15,675,229</u>	<u>\$ 17,524,025</u>
Deferred Outflows of Resources	\$ -	\$ -	\$ 537,054	\$ 597,915	\$ 537,054	\$ 597,915
Total assets and deferred outflows	<u>\$ 7,182,664</u>	<u>\$ 6,570,320</u>	<u>\$ 9,029,619</u>	<u>\$ 11,551,620</u>	<u>\$ 16,212,283</u>	<u>\$ 18,121,940</u>
Current and other liabilities	\$ 87,576	\$ 41,549	\$ 71,396	\$ 177,001	\$ 158,972	\$ 218,550
Long-term liabilities	1,256,772	1,342,827	3,727,416	5,898,271	4,984,188	7,241,098
Total liabilities	<u>\$ 1,344,348</u>	<u>\$ 1,384,376</u>	<u>\$ 3,798,812</u>	<u>\$ 6,075,272</u>	<u>\$ 5,143,160</u>	<u>\$ 7,459,648</u>
Deferred Inflows of Resources	\$ 1,088	\$ -	\$ -	\$ -	\$ 1,088	\$ -
Net position:						
Net invested in capital assets	\$ 2,850,512	\$ 2,893,836	\$ 4,432,583	\$ 2,442,908	\$ 7,283,095	\$ 5,336,744
Unrestricted	2,986,716	2,292,108	798,224	3,033,440	3,784,940	5,325,548
Total net position	<u>\$ 5,837,228</u>	<u>\$ 5,185,944</u>	<u>\$ 5,230,807</u>	<u>\$ 5,476,348</u>	<u>\$ 11,068,035</u>	<u>\$ 10,662,292</u>
Total liabilities, deferred inflows, and net position	<u>\$ 7,182,664</u>	<u>\$ 6,570,320</u>	<u>\$ 9,029,619</u>	<u>\$ 11,551,620</u>	<u>\$ 16,212,283</u>	<u>\$ 18,121,940</u>

The combined net position for the Town totals \$11.1 million, which is a \$405,743 increase (3.8%) over the previous fiscal year. The governmental activities reported a net increase in net position of \$651,284. The individual revenue and expense categories of the governmental activities remained relatively level as compared with the prior year with the exception of an increase in capital grants of \$89,282 attributable primarily to the Community Development Block Grant. There were no transfers from the governmental activities to the business-type activities in FY13, compared to transfers of \$331,923 in FY12.

The business-type activities reported a decrease in net position of \$245,541. The water and sewer activities reported decreases in program revenues of \$26,420 and \$35,987, and decreases in capital grants of \$221,808 and \$306,712, respectively, as compared to the prior year. These net decreases are primarily attributable to the Town receiving no federal and state grant revenues during FY13 due to the completion of the Mary Ball Road water and sewer line capital projects. Business-type activities reflect a decrease in operating revenues of \$62,407 when compared with the prior year. The 6% decrease in operating revenues was primarily due to a reduction in usage of the Town's system.

Government-Wide Financial Analysis (Continued)

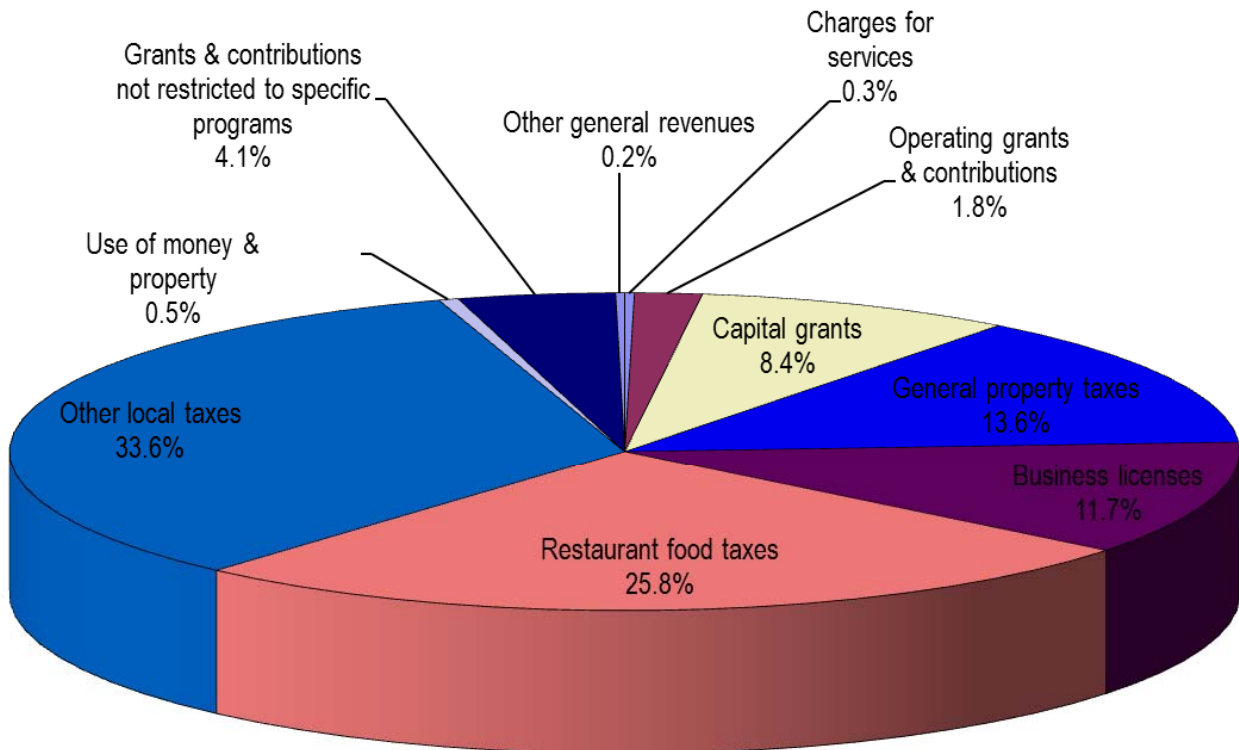
The following table shows the revenue and expenses of government-wide activities:

Changes in Net Position For the Year Ended June 30, 2013 and 2012						
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for services	\$ 5,341	\$ 8,122	\$ 1,044,114	\$ 1,106,521	\$ 1,049,455	\$ 1,114,643
Operating grants & contributions	37,004	37,004	-	-	37,004	37,004
Capital grants & contributions	175,837	86,555	-	528,520	175,837	615,075
General Revenues:						
Real estate & personal property taxes	285,413	281,250	-	-	285,413	281,250
Other local taxes	1,489,069	1,511,385	-	-	1,489,069	1,511,385
Miscellaneous	4,986	6,237	3,138	5,104	8,124	11,341
Unrestricted investment earnings	10,819	14,104	3,214	6,603	14,033	20,707
Gain on sale of capital asset	-	-	1,397	-	1,397	-
Grants and contributions not restricted to specific programs	86,583	86,946	-	-	86,583	86,946
Total revenues	\$ 2,095,052	\$ 2,031,603	\$ 1,051,863	\$ 1,646,748	\$ 3,146,915	\$ 3,678,351
Expenses:						
Administration	\$ 651,362	\$ 655,137	\$ -	\$ -	\$ 651,362	\$ 655,137
Public safety	379,100	384,434	-	-	379,100	384,434
Public works	211,043	161,003	-	-	211,043	161,003
Health and welfare	1,233	1,214	-	-	1,233	1,214
Community development	166,088	127,329	-	-	166,088	127,329
Sewer	-	-	872,882	958,173	872,882	958,173
Water	-	-	424,522	416,630	424,522	416,630
Interest on long-term debt	34,942	59,399	-	-	34,942	59,399
Total expenses	\$ 1,443,768	\$ 1,388,516	\$ 1,297,404	\$ 1,374,803	\$ 2,741,172	\$ 2,763,319
Change in net position before transfers	\$ 651,284	\$ 643,087	\$ (245,541)	\$ 271,945	\$ 405,743	\$ 915,032
Transfers	-	(331,923)	-	331,923	-	-
Change in net position	\$ 651,284	\$ 311,164	\$ (245,541)	\$ 603,868	\$ 405,743	\$ 915,032
Net position beginning of year, as restated	5,185,944	4,874,780	5,476,348	4,872,480	10,662,292	9,747,260
Net position end of year	\$ 5,837,228	\$ 5,185,944	\$ 5,230,807	\$ 5,476,348	\$ 11,068,035	\$ 10,662,292

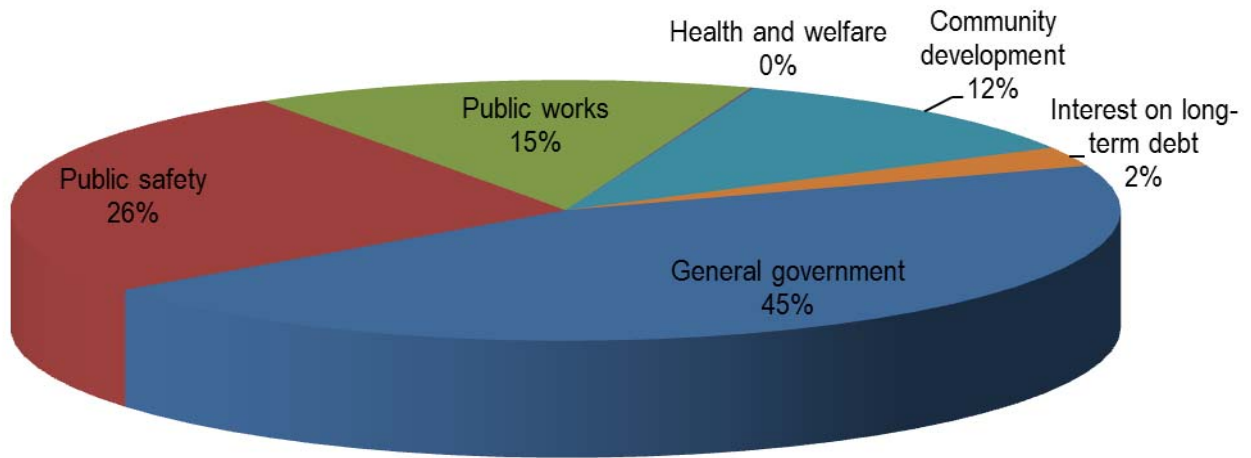
Government-Wide Financial Analysis (Continued)

Governmental Activities. With the adoption of the budget for FY13, the real estate tax rate was not changed and remains at \$0.10 per \$100 of assessed value. Overall grant revenue increased as compared to FY12 by \$88,919. This inflow in federal grant revenue was due to the completion of the Mary Ball Road project. Miscellaneous revenues decreased slightly by \$1,251. Interest earnings on investments were down as compared with the prior year by approximately 32%, or \$6,674, for governmental and business-type activities combined.

Sources of Revenue of Governmental Activities for Fiscal Year 2013



Total Functional Expenses of Governmental Activities for Fiscal Year 2013



Business-Type Activities. There were no significant operational changes in the Water and Sewer funds in FY13. Total operational expenses decreased by \$77,399 in comparison to prior year. However, the Town did continue to initiate, conduct and/or complete projects including the force main and pump replacement on Wiggins Avenue.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$4.3 million, an increase of \$.6 million in comparison with the prior year. Of this total amount, \$2.0 million or 47% constitutes the unassigned fund balance. The remaining \$2.3 million consists of the committed and assigned fund balances designated for various projects.

The General Fund is the Town's primary operating fund. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$2.0 million. The Town Council adopted a fund balance policy in FY11 to keep an unassigned general fund balance at a minimum of 30% of the subsequent year's budgeted fund expenditures. Fund expenditures as defined by this policy include expenditures for the following funds: General, Water, and Sewer, excluding expenditures made for capital improvements.

Government-Wide Financial Analysis (Continued)

The unassigned fund balance at June 30, 2013 in the General Fund of \$2 million represents 75.75% of total budgeted fund expenditures as defined by the policy. Additionally, the unassigned fund balance of the General Fund represents 46.9% of the total fund balance of the General Fund.

Town Council has directed the establishment of various designated accounts. The accounts are funded from General, Water, and Sewer Revenues and deposited into investment accounts. The purpose of the accounts is to set aside funds for future expenditures in lieu of borrowing. Withdrawal of funds from the designated accounts requires action by the Town's Council.

Proprietary Funds. The Town of Kilmarnock's only proprietary funds are its water and sewer funds which provide the same type of information included in the government-wide financial statements, but in more detail. As of June 30, 2013, the net position of the proprietary funds totaled \$5.2 million. This is a \$245,541 or 4.5% decrease from the previous year. The net loss of the proprietary funds was \$245,541 for the current year.

General Fund Budgetary Highlights

The Town's 2013 budget was adopted by Town Council at a special meeting held on June 18, 2012. The General Fund budget was not amended during the year. The Proprietary Funds' budgets were not supplemented for additional water and sewer expenditures.

Capital Assets and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business-type activities totaled \$10.4 million, net of accumulated depreciation. This is a decrease of \$0.18 million from the previous year. This investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, machinery and equipment, and construction in progress. This slight decrease is due primarily to the current year's depreciation closely approximating the cost of assets acquired during the year.

Summary of Capital Assets for Governmental Activities (net of depreciation)
As of June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,914,272	\$ 1,913,819	\$ -	\$ -	\$ 1,914,272	\$ 1,913,819
Buildings and improvements	404,515	410,018	3,424,590	3,520,418	3,829,105	3,930,436
Improvements other than buildings	54,732	59,483	13,599	17,928	68,331	77,411
Machinery and equipment	112,285	84,993	466,990	449,764	579,275	534,757
Infrastructure	358,078	382,243	3,631,817	3,444,395	3,989,895	3,826,638
Construction in progress	6,630	43,280	-	242,170	6,630	285,450
Total	<u>\$ 2,850,512</u>	<u>\$ 2,893,836</u>	<u>\$ 7,536,996</u>	<u>\$ 7,674,675</u>	<u>\$ 10,387,508</u>	<u>\$ 10,568,511</u>

Additional details on the Town's capital assets can be found in Note 4 of the Notes to the Basic Financial Statements.

Long term debt: At the end of the current fiscal year, the Town had total outstanding long-term obligations of \$5.0 million. The decrease of \$2.2 million over the prior year represents the payment of debt service.

For towns, the Commonwealth of Virginia limits the amount of debt outstanding to 10% of the locality's assessed value of real property. The Town's outstanding debt is significantly below this limitation representing the Town's historically conservative debt borrowing policy and management approach.

Capital Assets and Debt Administration (Continued)

Summary of Outstanding Debt
For the Year Ended June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation refunding bonds	\$ 1,091,341	\$ 1,210,495	\$ 2,766,009	\$ 4,893,848	\$ 3,857,350	\$ 6,104,343
General obligation debt	-	-	875,458	935,834	875,458	935,834
OPEB Obligation (Note 14)	116,751	88,670	69,337	53,726	186,088	142,396
Compensated absences	48,680	43,662	16,612	14,863	65,292	58,525
Total	<u>\$ 1,256,772</u>	<u>\$ 1,342,827</u>	<u>\$ 3,727,416</u>	<u>\$ 5,898,271</u>	<u>\$ 4,984,188</u>	<u>\$ 7,241,098</u>

Additional details on the Town's long term debt can be found in Note 6 of the Notes to the Basic Financial Statements.

Economic Factors

The Commonwealth of Virginia continues to experience slower than anticipated revenue growth resulting in reduced funding to local governments, impacting operating revenues and the ability to meet many State and Federal mandated services. It is expected this trend will continue. The Town's debt borrowing policies and financial management controls have lessened this impact; however, the situation will continue to be monitored. Necessary adjustments will be made during the preparation of the Town's annual operating budget to take into consideration the current downturn of the economy.

In addition, one of the major challenges facing the Town of Kilmarnock is controlled growth. Developers and homeowners recognize the amenities the Northern Neck area has to offer. The Town Council is appreciative of the necessity of growth and change. It is their goal to address these challenges in a way that is both fiscally and environmentally responsible.

Requests for Information

This financial report is designed to provide a general overview of the Town's financial condition as of fiscal year ended June 30, 2013. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Kilmarnock, P.O. Box 1357, Kilmarnock, VA 22482.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position

June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,217,766	\$ 709,428	\$ 4,927,194
Receivables (net of allowance for uncollectibles):			
Taxes receivable	10,516	-	10,516
Accounts receivable	66,455	217,552	284,007
Due from other governmental units	37,415	-	37,415
Inventories	-	28,589	28,589
Capital assets (net of accumulated depreciation):			
Land	1,914,272	-	1,914,272
Buildings and system	404,515	3,424,591	3,829,106
Improvements other than buildings	54,732	13,599	68,331
Machinery and equipment	112,285	466,989	579,274
Infrastructure	358,078	3,631,817	3,989,895
Construction in progress	6,630	-	6,630
Total assets	\$ 7,182,664	\$ 8,492,565	\$ 15,675,229
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	\$ -	\$ 537,054	\$ 537,054
LIABILITIES			
Accounts payable	\$ 58,018	\$ 16,830	\$ 74,848
Accrued liabilities	14,214	6,471	20,685
Customers' deposits	-	31,268	31,268
Accrued interest payable	13,688	16,827	30,515
Unearned revenue	1,656	-	1,656
Long-term liabilities:			
Due within one year	127,440	230,346	357,786
Due in more than one year	1,129,332	3,497,070	4,626,402
Total liabilities	\$ 1,344,348	\$ 3,798,812	\$ 5,143,160
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 1,088	\$ -	\$ 1,088
NET POSITION			
Net investment in capital assets	\$ 2,850,512	\$ 4,432,583	\$ 7,283,095
Unrestricted	2,986,716	798,224	3,784,940
Total net position	\$ 5,837,228	\$ 5,230,807	\$ 11,068,035

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

TOWN OF KILMARNOCK, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 651,362	\$ 2,781	\$ -	\$ -
Public safety	379,100	-	37,004	-
Public works	211,043	-	-	-
Health and welfare	1,233	-	-	-
Community development	166,088	2,560	-	175,837
Interest on long-term debt	34,942	-	-	-
Total governmental activities	<u>\$ 1,443,768</u>	<u>\$ 5,341</u>	<u>\$ 37,004</u>	<u>\$ 175,837</u>
Business-type activities:				
Water	\$ 424,522	\$ 389,010	\$ -	\$ -
Sewer	872,882	655,104	-	-
Total business-type activities	<u>\$ 1,297,404</u>	<u>\$ 1,044,114</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 2,741,172</u>	<u>\$ 1,049,455</u>	<u>\$ 37,004</u>	<u>\$ 175,837</u>

General revenues:

General property taxes
 Local sales and use taxes
 Consumers' utility taxes
 Business licenses
 Restaurant food taxes
 Bank stock tax
 Cigarette tax
 Other local taxes
 Unrestricted revenues from use of money and property
 Miscellaneous
 Commonwealth of Virginia non-categorical aid
 Gain on disposal of capital assets

Total general revenues

Change in net position

Net position - beginning, as restated

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (648,581)	\$ -	\$ (648,581)
(342,096)	-	(342,096)
(211,043)	-	(211,043)
(1,233)	-	(1,233)
12,309	-	12,309
(34,942)	-	(34,942)
<u>\$ (1,225,586)</u>	<u>\$ -</u>	<u>\$ (1,225,586)</u>
\$ -	\$ (35,512)	\$ (35,512)
-	(217,778)	(217,778)
<u>\$ -</u>	<u>\$ (253,290)</u>	<u>\$ (253,290)</u>
<u>\$ (1,225,586)</u>	<u>\$ (253,290)</u>	<u>\$ (1,478,876)</u>
\$ 285,413	\$ -	\$ 285,413
109,705	-	109,705
59,569	-	59,569
244,786	-	244,786
540,692	-	540,692
270,751	-	270,751
134,919	-	134,919
128,647	-	128,647
10,819	3,214	14,033
4,986	3,138	8,124
86,583	-	86,583
-	1,397	1,397
<u>\$ 1,876,870</u>	<u>\$ 7,749</u>	<u>\$ 1,884,619</u>
651,284	(245,541)	405,743
5,185,944	5,476,348	10,662,292
<u>\$ 5,837,228</u>	<u>\$ 5,230,807</u>	<u>\$ 11,068,035</u>

Fund Financial Statements

Balance Sheet
Governmental Funds
June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 4,214,730	\$ 3,036	\$ 4,217,766
Receivables (net of allowance for uncollectibles):			
Taxes receivable	10,516	-	10,516
Accounts receivable	66,455	-	66,455
Due from other governmental units	37,415	-	37,415
Total assets	<u>\$ 4,329,116</u>	<u>\$ 3,036</u>	<u>\$ 4,332,152</u>
LIABILITIES			
Accounts payable	\$ 56,638	\$ 1,380	\$ 58,018
Accrued liabilities	14,214	-	14,214
Unearned revenue	-	1,656	1,656
Total liabilities	<u>\$ 70,852</u>	<u>\$ 3,036</u>	<u>\$ 73,888</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 7,632	-	\$ 7,632
FUND BALANCES			
Committed:			
Capital projects	\$ 1,582,271	-	\$ 1,582,271
Technology park	260,000	-	260,000
Assigned:			
Emergency management	128,866	-	128,866
Capital projects	85,489	-	85,489
Technology park - property acquisition	200,502	-	200,502
Unassigned:			
General fund	1,993,504	-	1,993,504
Total fund balances	<u>\$ 4,250,632</u>	<u>\$ -</u>	<u>\$ 4,250,632</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,329,116</u>	<u>\$ 3,036</u>	<u>\$ 4,332,152</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 4,250,632
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 funds.	2,850,512
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	6,544
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expense when due.	(13,688)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,256,772)</u>
Net position of governmental activities	<u>\$ 5,837,228</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2013

	General	Capital Projects	Total
REVENUES			
General property taxes	\$ 284,477	\$ -	\$ 284,477
Other local taxes	1,489,069	-	1,489,069
Permits, privilege fees, and regulatory licenses	2,560	-	2,560
Fines and forfeitures	2,781	-	2,781
Revenue from the use of money and property	10,819	-	10,819
Miscellaneous	4,986	-	4,986
Intergovernmental revenues:			
Commonwealth	123,587	-	123,587
Federal	-	175,837	175,837
Total revenues	\$ 1,918,279	\$ 175,837	\$ 2,094,116
EXPENDITURES			
Current:			
General government administration	\$ 580,807	\$ -	\$ 580,807
Public safety	328,797	-	328,797
Public works	185,927	-	185,927
Health and welfare	1,160	-	1,160
Community development	-	156,173	156,173
Capital expenditures	79,539	-	79,539
Debt service:			
Principal retirement	119,154	-	119,154
Interest and other fiscal charges	36,436	-	36,436
Total expenditures	\$ 1,331,820	\$ 156,173	\$ 1,487,993
Excess (deficiency) of revenues over (under) expenditures	\$ 586,459	\$ 19,664	\$ 606,123
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 19,664	\$ -	\$ 19,664
Transfers out	-	(19,664)	(19,664)
Total other financing sources (uses)	\$ 19,664	\$ (19,664)	\$ -
Net change in fund balances	\$ 606,123	\$ -	\$ 606,123
Fund balances - beginning	3,644,509	-	3,644,509
Fund balances - ending	\$ 4,250,632	\$ -	\$ 4,250,632

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

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2013

		<u>Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	606,123
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation or vice versa in the current period.		
Capital outlay	\$	25,168
Depreciation expense		<u>(68,492)</u>
		(43,324)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of the change in unavailable taxes.		
		936
Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases the long term liabilities and does not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal retired on general obligation bonds	\$	<u>119,154</u>
		119,154
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in compensated absences	\$	(5,018)
Change in other post employment benefits liability		(28,081)
Change in interest payable		<u>1,494</u>
		(31,605)
Change in net position of governmental activities	\$	<u><u>651,284</u></u>

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

TOWN OF KILMARNOCK, VIRGINIA
Statement of Net Position
Proprietary Funds
June 30, 2013

Exhibit 7

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 526,556	\$ 182,872	\$ 709,428
Accounts receivable, net of allowance for uncollectibles	87,594	129,958	217,552
Inventories	22,770	5,819	28,589
Total current assets	<u>\$ 636,920</u>	<u>\$ 318,649</u>	<u>\$ 955,569</u>
Noncurrent assets:			
Capital assets:			
Buildings and system	\$ 735,048	\$ 4,087,038	\$ 4,822,086
Improvements other than buildings	6,633	90,378	97,011
Machinery and equipment	165,120	2,173,608	2,338,728
Infrastructure	1,814,597	2,904,481	4,719,078
Less: accumulated depreciation	(790,713)	(3,649,194)	(4,439,907)
Total capital assets	<u>\$ 1,930,685</u>	<u>\$ 5,606,311</u>	<u>\$ 7,536,996</u>
Total noncurrent assets	<u>\$ 1,930,685</u>	<u>\$ 5,606,311</u>	<u>\$ 7,536,996</u>
Total assets	<u>\$ 2,567,605</u>	<u>\$ 5,924,960</u>	<u>\$ 8,492,565</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	<u>\$ 97,213</u>	<u>\$ 439,841</u>	<u>\$ 537,054</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,915	\$ 13,915	\$ 16,830
Accrued liabilities	2,666	3,805	6,471
Customers' deposits	31,268	-	31,268
Accrued interest payable	3,702	13,125	16,827
Current portion of long term obligations	37,492	192,854	230,346
Total current liabilities	<u>\$ 78,043</u>	<u>\$ 223,699</u>	<u>\$ 301,742</u>
Noncurrent liabilities:			
Noncurrent portion of long term obligations	<u>\$ 603,440</u>	<u>\$ 2,893,630</u>	<u>\$ 3,497,070</u>
Total noncurrent liabilities	<u>\$ 603,440</u>	<u>\$ 2,893,630</u>	<u>\$ 3,497,070</u>
Total liabilities	<u>\$ 681,483</u>	<u>\$ 3,117,329</u>	<u>\$ 3,798,812</u>
NET POSITION			
Net investment in capital assets	\$ 1,419,375	\$ 3,013,208	\$ 4,432,583
Unrestricted	563,960	234,264	798,224
Total net position	<u>\$ 1,983,335</u>	<u>\$ 3,247,472</u>	<u>\$ 5,230,807</u>

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

Statement of Revenues, Expenses, and Changes in Net Position
 Proprietary Funds
 For the Year Ended June 30, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water revenues	\$ 388,040	\$ -	\$ 388,040
Sewer revenues	-	651,084	651,084
Connection fees	970	125	1,095
Capital recovery charges	-	3,895	3,895
Total operating revenues	<u>\$ 389,010</u>	<u>\$ 655,104</u>	<u>\$ 1,044,114</u>
Operating expenses:			
Personnel services	\$ 123,541	\$ 174,906	\$ 298,447
Fringe benefits	48,989	71,260	120,249
Contractual services	55,491	34,153	89,644
Depreciation	50,675	176,367	227,042
Other operating expenses	105,186	261,319	366,505
Total operating expenses	<u>\$ 383,882</u>	<u>\$ 718,005</u>	<u>\$ 1,101,887</u>
Income (loss) from operations	<u>\$ 5,128</u>	<u>\$ (62,901)</u>	<u>\$ (57,773)</u>
Nonoperating revenues (expenses):			
Interest income	\$ 1,371	\$ 1,843	\$ 3,214
Gain on disposal of assets	-	1,397	1,397
Miscellaneous	-	3,138	3,138
Interest expense	(40,640)	(154,877)	(195,517)
Total nonoperating revenues (expenses)	<u>\$ (39,269)</u>	<u>\$ (148,499)</u>	<u>\$ (187,768)</u>
Net income (loss) before transfers	<u>\$ (34,141)</u>	<u>\$ (211,400)</u>	<u>\$ (245,541)</u>
Transfers:			
Transfers in	\$ 698	\$ 1,010,588	\$ 1,011,286
Transfers out	(1,010,588)	(698)	(1,011,286)
Total	<u>\$ (1,009,890)</u>	<u>\$ 1,009,890</u>	<u>\$ -</u>
Change in net position	<u>\$ (1,044,031)</u>	<u>\$ 798,490</u>	<u>\$ (245,541)</u>
Net position, beginning of year, as restated	<u>3,027,366</u>	<u>2,448,982</u>	<u>5,476,348</u>
Net position, end of year	<u><u>\$ 1,983,335</u></u>	<u><u>\$ 3,247,472</u></u>	<u><u>\$ 5,230,807</u></u>

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

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 408,148	\$ 749,329	\$ 1,157,477
Payments to suppliers	(156,138)	(390,168)	(546,306)
Payments to employees (including fringe benefits)	(165,400)	(235,416)	(400,816)
Net cash provided by (used for) operating activities	\$ 86,610	\$ 123,745	\$ 210,355
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ -	\$ (89,364)	\$ (89,364)
Principal payments on bonds	(468,124)	(1,720,091)	(2,188,215)
Other miscellaneous revenue	-	3,138	3,138
Interest payments	(32,472)	(115,128)	(147,600)
Proceeds from sales of capital assets	-	1,397	1,397
Net cash provided by (used for) capital and related financing activities	\$ (500,596)	\$ (1,920,048)	\$ (2,420,644)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	\$ (1,009,890)	\$ 1,009,890	\$ -
Net cash provided by (used for) noncapital and financing activities	\$ (1,009,890)	\$ 1,009,890	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 1,371	\$ 1,843	\$ 3,214
Net cash provided by (used for) investing activities	\$ 1,371	\$ 1,843	\$ 3,214
Net increase (decrease) in cash and cash equivalents	\$ (1,422,505)	\$ (784,570)	\$ (2,207,075)
Cash and cash equivalents - beginning of year	1,949,061	967,442	2,916,503
Cash and cash equivalents - end of year	\$ 526,556	\$ 182,872	\$ 709,428
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 5,128	\$ (62,901)	\$ (57,773)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	\$ 50,675	\$ 176,367	\$ 227,042
(Increase) decrease in accounts receivable	(3,631)	18,049	14,418
(Increase) decrease in due from other governmental units	24,056	76,176	100,232
(Increase) decrease in inventories	4,535	(2,799)	1,736
Increase (decrease) in accounts payable	4	(79,788)	(79,784)
Increase (decrease) in retainage payable	-	(12,109)	(12,109)
Increase (decrease) in accrued liabilities	229	291	520
Increase (decrease) in net OPEB obligation	6,309	9,302	15,611
Increase (decrease) in compensated absences	592	1,157	1,749
Increase (decrease) in customer deposits	(1,287)	-	(1,287)
Total adjustments	\$ 81,482	\$ 186,646	\$ 268,128
Net cash provided by (used for) operating activities	\$ 86,610	\$ 123,745	\$ 210,355

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

TOWN OF KILMARNOCK, VIRGINIA

Notes of Financial Statements As of June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile:

The Town of Kilmarnock, located in the Northern Neck of Virginia, was incorporated in 1930. The town has a population of 1,487 and a land area of 3.36 square miles.

The Town is governed under the Council-Manager form of government. The Town government engages in wide ranges of municipal services including general government administration, public safety, public works, and community development.

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

A. Financial Reporting Entity

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

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

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

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

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

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

A. Financial Reporting Entity: (Continued)

Budgetary Comparison Schedules: (Continued)

Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results for its major funds.

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

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

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

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

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

B. Government-Wide and Fund Financial Statements: (Continued)

Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities is allocated to the various functional expense categories based on the internal charges to each function. In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

Proprietary fund operating revenues consist of charges for services and related revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a brief description of the specific funds used by the Town in FY 2013.

1. *Governmental Funds* - Governmental Funds are those through which most governmental functions typically are financed. The government reports the following governmental funds.

General Fund - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

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

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

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

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

C. Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net position) is segregated into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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

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

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

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

D. Budgets and Budgetary Accounting

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

1. Budgets and Budgetary Accounting

- a. The Town Manager, in conjunction with the Administration and Finance Committee, submits a proposed operating budget to the Town Council prior to June 30 of each year. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain citizen comments.
- c. Prior to June 30, the budget is legally enacted through Council vote.
- d. The Town Manager is authorized to transfer budgeted amounts between line items within a department without prior approval from the Town Council.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund.
- f. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

2. Legally Adopted Budgets

The general, capital projects and proprietary funds have legally adopted annual budgets.

E. Cash and Cash Equivalents

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

F. Investments

Investments are reported at fair value.

G. Inventory

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

H. Property Taxes

Real estate and personal property are assessed annually on January 1st by the Counties of Lancaster and Northumberland at fair market value. Personal property and real estate taxes attach as an enforceable lien on the property as of January 1st. Taxes are payable in one installment on December 5th. The Town bills and collects its own property taxes. Penalties accrue at 10% on real estate and personal property taxes beginning December 6th. Interest accrues on real estate and personal property taxes at 8% per annum beginning July 1st after the December 5th due date.

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

I. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes for the General Fund was \$186 at June 30, 2013.

J. Capital Assets

Capital assets include land, buildings, equipment, vehicles and water and sewer mains. Any asset or group of assets acquired by the Town that has a useful life in excess of three years and an acquisition cost, or fair market value (when received), of at least \$2,500 is reported in the applicable governmental or business-type activities column in the government-wide financial statements.

such assets are recorded at historical cost (or estimated historical cost) if constructed or purchased. Donated capital assets are recorded at fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building	50 years
Water and sewer mains	65 years
Equipment, furniture and fixtures	5-30 years
Vehicles	8 years
Improvements	20-65 years
Machinery	5-30 years
Infrastructure	65 years

K. Compensated Absences

Vacation

Each employee is entitled to one week paid vacation after twelve months of continuous employment, two weeks between two and ten years of employment and three weeks each year thereafter. Vacation accrues on a biweekly basis and unused vacation of 320 hours or less may be carried over at the end of each calendar year.

Sick Leave

Employees accrue sick leave at the rate of 3.09 hours per pay period or ten days per year immediately upon employment. The maximum sick leave accumulation is 600 hours. Sick leave may be carried over after June 30, but the Town has no liability for unused sick leave.

In the governmental fund types of the fund financial statements, the cost of vacation and sick leave is only recognized when payments are made to employees. However, in the government-wide financial statements, the liability for accrued vacation and sick leave benefits represent the Town's commitment to fund such vested amounts from future operations. In the proprietary funds the amount of such compensated absences is recognized in full when vested.

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

L. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Fund Equity

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

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

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

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

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

M. Fund Equity (Continued)

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 30% of the actual GAAP basis expenditures in all funds specifically including the General Fund, Water Fund and Sewer Fund but excluding all expenditures made for Capital Improvements.

N. Credit Risk

Concentrations of credit risk with respect to receivables are limited due to the large number of customers comprising the Town's customer base. As of June 30, 2013, the Town had no significant concentrations of credit risk.

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

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

Q. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

R. Net Position Flow Assumption

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

S. Adoption of Accounting Principles

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

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

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

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this Statement resulted in the restatement of net position as disclosed in Note 15.

TOWN OF KILMARNOCK, VIRGINIA

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

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

T. Upcoming GASB Pronouncements

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

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

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

NOTE 2—DEPOSITS AND INVESTMENTS:

Deposits:

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

Investments:

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments):

The Town’s investments at June 30, 2013 were held by the Town or in the Town’s name by the Town’s custodial banks.

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities:

The Town does not have a policy related to credit risk of debt securities. The Town's rated debt investments as of June 30, 2013 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Town's Rated Debt Investments' Values	
	Fair Quality Rating
	AAAm
Local Government Investment Pool	\$ 3,854,511

External Investment Pool:

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

NOTE 3—DUE FROM OTHER GOVERNMENTAL UNITS:

At June 30, 2013 the Town has receivables from other governments as follows:

	Governmental Activities
Commonwealth of Virginia:	
Telecommunications tax	\$ 12,328
Fire program funds	8,000
Lancaster County	17,087
Totals	\$ 37,415

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 4—CAPITAL ASSETS:

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

Governmental Activities:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 1,913,819	\$ 453	\$ -	\$ 1,914,272
Construction in progress	43,280	6,630	43,280	6,630
Total capital assets not being depreciated	<u>\$ 1,957,099</u>	<u>\$ 7,083</u>	<u>\$ 43,280</u>	<u>\$ 1,920,902</u>
Capital assets being depreciated:				
Buildings	\$ 511,873	\$ 4,547	\$ -	\$ 516,420
Improvements other than buildings	120,745	-	-	120,745
Machinery and equipment	336,404	56,818	-	393,222
Infrastructure	483,305	-	-	483,305
Total capital assets being depreciated	<u>\$ 1,452,327</u>	<u>\$ 61,365</u>	<u>\$ -</u>	<u>\$ 1,513,692</u>
Less: Accumulated depreciation for:				
Buildings	\$ 101,855	\$ 10,050	\$ -	\$ 111,905
Improvements other than buildings	61,262	4,751	-	66,013
Machinery and equipment	251,411	29,526	-	280,937
Infrastructure	101,062	24,165	-	125,227
Total accumulated depreciation	<u>\$ 515,590</u>	<u>\$ 68,492</u>	<u>\$ -</u>	<u>\$ 584,082</u>
Total capital assets being depreciated, net	<u>\$ 936,737</u>	<u>\$ (7,127)</u>	<u>\$ -</u>	<u>\$ 929,610</u>
Governmental activities capital assets, net	<u>\$ 2,893,836</u>	<u>\$ (44)</u>	<u>\$ 43,280</u>	<u>\$ 2,850,512</u>

Business-type Activities:

Capital assets not being depreciated:				
Construction in progress	\$ 242,170	\$ 15,370	\$ 257,540	\$ -
Total capital assets not being depreciated	<u>\$ 242,170</u>	<u>\$ 15,370</u>	<u>\$ 257,540</u>	<u>\$ -</u>
Capital assets not being depreciated:				
Buildings and system	\$ 4,822,086	\$ -	\$ -	\$ 4,822,086
Improvements other than buildings	97,011	-	-	97,011
Machinery and equipment	2,280,347	73,993	15,612	2,338,728
Infrastructure	4,461,538	257,540	-	4,719,078
Total capital assets not being depreciated	<u>\$ 11,660,982</u>	<u>\$ 331,533</u>	<u>\$ 15,612</u>	<u>\$ 11,976,903</u>
Less: Accumulated depreciation for:				
Buildings and system	\$ 1,301,667	\$ 95,828	\$ -	\$ 1,397,495
Improvements other than buildings	79,083	4,329	-	83,412
Machinery and equipment	1,830,584	56,767	15,612	1,871,739
Infrastructure	1,017,143	70,118	-	1,087,261
Total accumulated depreciation	<u>\$ 4,228,477</u>	<u>\$ 227,042</u>	<u>\$ 15,612</u>	<u>\$ 4,439,907</u>
Total capital assets being depreciated, net	<u>\$ 7,432,505</u>	<u>\$ 104,491</u>	<u>\$ -</u>	<u>\$ 7,536,996</u>
Business-type activities capital assets, net	<u>\$ 7,674,675</u>	<u>\$ 119,861</u>	<u>\$ 257,540</u>	<u>\$ 7,536,996</u>

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 4—CAPITAL ASSETS: (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 19,178
Public Safety	24,657
Public Works	<u>24,657</u>
Total	\$ <u>68,492</u>
Business-type activities	
Water fund	\$ 50,675
Sewer fund	<u>176,367</u>
Total	\$ <u>227,042</u>

NOTE 5—COMPENSATED ABSENCES:

In accordance with GASB statement 16 *Accounting for Compensated Absences*, the Town has accrued the liability arising from outstanding compensated absences. The Town had outstanding compensated absences as follows:

Governmental Funds	\$ <u>48,680</u>
Enterprise Funds	\$ <u>16,612</u>

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 6—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the fiscal year ended June 30, 2013:

	<u>Balance at July 1, 2012</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Governmental Funds:					
General obligation refunding bonds	\$ 1,210,495	\$ -	\$ 119,154	\$ 1,091,341	\$ 122,572
Net OPEB obligation payable	88,670	28,081	-	116,751	-
Compensated absences	43,662	9,384	4,366	48,680	4,868
Total governmental funds	<u>\$ 1,342,827</u>	<u>\$ 37,465</u>	<u>\$ 123,520</u>	<u>\$ 1,256,772</u>	<u>\$ 127,440</u>
	<u>Balance at July 1, 2011</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance at June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Enterprise Funds:					
Sewer Fund					
General obligation bonds	\$ 935,834	\$ -	\$ 60,376	\$ 875,458	\$ 60,376
General obligation refunding bonds	3,817,201	-	1,659,715	2,157,486	131,280
Net OPEB obligation payable	32,261	9,302	-	41,563	-
Compensated absences	10,820	2,239	1,082	11,977	1,198
Water Fund					
General obligation refunding bonds	1,076,647	-	468,124	608,523	37,028
Net OPEB obligation payable	21,465	6,309	-	27,774	-
Compensated absences	4,043	996	404	4,635	464
Total Enterprise Funds	<u>\$ 5,898,271</u>	<u>\$ 18,846</u>	<u>\$ 2,189,701</u>	<u>\$ 3,727,416</u>	<u>\$ 230,346</u>

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year	Water Bonds		Sewer Bonds		Governmental Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 37,028	\$ 22,211	\$ 191,656	\$ 78,748	\$ 122,572	\$ 32,849
2015	37,515	20,860	193,384	73,957	126,448	29,160
2016	39,041	19,490	198,794	69,102	130,277	25,354
2017	39,676	18,065	201,046	64,050	134,058	21,433
2018	41,366	16,617	207,039	58,915	138,288	17,397
2019	42,997	15,107	212,819	53,562	141,964	13,235
2020	44,397	13,538	217,785	47,998	146,586	8,962
2021	45,719	11,917	222,472	42,252	151,148	4,549
2022	48,060	10,249	230,770	36,336	-	-
2023	42,600	8,494	211,412	30,117	-	-
2024	44,848	6,940	219,381	24,604	-	-
2025	45,792	5,303	222,731	18,800	-	-
2026	48,838	3,631	233,529	12,874	-	-
2027	50,646	1,849	239,938	6,554	-	-
2028	-	-	30,188	-	-	-
	<u>\$ 608,523</u>	<u>\$ 174,271</u>	<u>\$ 3,032,944</u>	<u>\$ 617,869</u>	<u>\$ 1,091,341</u>	<u>\$ 152,939</u>

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term Obligations:

	<u>Amount Outstanding</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Funds:</u>		
<u>General Obligation Bonds:</u>		
\$1,332,570 General Obligation Refunding Bonds, issued March 30, 2011, maturing annually in installments ranging from \$119,154 to \$151,148 through February 1, 2021, interest at 3.01% payable semiannually	\$ <u>1,091,341</u>	\$ <u>122,572</u>
Total general obligation bonds	\$ <u>1,091,341</u>	\$ <u>122,572</u>
Net OPEB obligation payable	\$ <u>116,751</u>	\$ <u>-</u>
Compensated absences	\$ <u>48,680</u>	\$ <u>4,868</u>
Total Governmental Obligations	\$ <u><u>1,256,772</u></u>	\$ <u><u>127,440</u></u>
<u>Enterprise Funds:</u>		
<u>General Obligation Bonds:</u>		
\$5,223,717 General Obligation Refunding Bonds, issued March 30, 2011, maturing annually in installments ranging from \$77,281 to \$394,307 through May 1, 2027, interest at 3.65% payable semiannually	\$ 2,766,009	\$ 168,308
\$1,358,400 Series 2007, issued March 29, 2007, due in annual installments of \$60,376 with a final principal payment of \$30,194 on January 1, 2028, this bond is an interest free obligation	<u>875,458</u>	<u>60,376</u>
Total general obligation bonds	\$ <u>3,641,467</u>	\$ <u>228,684</u>
Net OPEB obligation payable	\$ <u>69,337</u>	\$ <u>-</u>
Compensated absences	\$ <u>16,612</u>	\$ <u>1,662</u>
Total Enterprise Obligations	\$ <u>3,727,416</u>	\$ <u>230,346</u>
Total Primary Government	\$ <u><u>4,984,188</u></u>	\$ <u><u>357,786</u></u>

NOTE 7—RETIREMENT PLAN:

A. Plan Description:

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

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

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

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

NOTE 7—RETIREMENT PLAN: (CONTINUED)

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

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution has been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's non-professional employee contribution rate for the fiscal year ended 2013 was 10.88% of the annual covered payroll.

C. Annual Pension Cost:

For fiscal year 2013, the Town's annual pension cost of \$84,255 was equal to the Town's required and actual contributions.

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 7—RETIREMENT PLAN: (CONTINUED)

C. Annual Pension Cost: (Continued)

The following trend information is presented for 2013 and the two preceding years.

<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	\$ 72,963	100%	\$ -
6/30/12	71,885	100%	-
6/30/13	84,255	100%	-

* Includes employer contributions only

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the unfunded actuarial accrued liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30 2013, the most recent actuarial valuation date, the Town's plan was 89.11% funded. The actuarial accrued liability for benefits was \$1,808,996 and the actuarial value of assets was \$1,611,993, resulting in an unfunded actuarial accrued liability (UAAL) of \$197,003. The covered payroll (annual payroll of active employees covered by the plan) was \$764,644 and ratio of the UAAL to the covered payroll was 25.76%.

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 plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 8—UNAVAILABLE/UNEARNED REVENUES:

Unavailable/unearned revenues represent amounts for which, under the modified accrual basis of accounting, asset recognition criteria have been met, but for which revenue recognition criteria have not been met (i.e., such amounts are measurable, but not available). At June 30, 2013 unavailable property tax revenues in the governmental funds totaled \$7,632. Unearned revenue in the amount of \$1,656 represents CDBG program income.

NOTE 9—FIDELITY BOND:

Fidelity bond coverage with Virginia Municipal League during the fiscal year 2013 was as follows:

	<u>Coverage</u>
Public Officials Blanket Bond, including Town Manager, Treasurer, Town Clerk, and Town Council	\$ 200,000
Public Employees	25,000

NOTE 10—COMMITMENTS AND CONTINGENCIES:

While it is anticipated that the Water and Sewer Funds will be able to make the required payments to liquidate the General Obligation Bonds, in the event of a failure to do so the full faith and credit of the Town's General Fund will be obligated to meet any necessary payment shortfall.

NOTE 11—LITIGATION:

At June 30, 2013, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 12—INTERFUND TRANSFERS:

Interfund transfers for the year ended June 30, 2013 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 19,664	\$ -
Capital Projects Fund	-	19,664
Water Fund	698	1,010,588
Sewer Fund	1,010,588	698
Total	<u>\$ 1,030,950</u>	<u>\$ 1,030,950</u>

Transfers are used to (1) move revenue from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS (OPEB) - HEALTH INSURANCE CREDIT:

A. Plan Description

The Town participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the Town who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 7.

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS (OPEB) - HEALTH INSURANCE CREDIT: (CONTINUED)

B. Funding Policy

As a participating local political subdivision, the Town is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was .24% of annual covered payroll.

C. OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, is based on the annual required contribution (ARC). The Town is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2013, the Town's contribution of \$1,859 was equal to the ARC and OPEB cost. The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011 \$	1,843	100%	\$ -
6/30/2012	1,888	100%	-
6/30/2013	1,859	100%	-

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 21,402
Actuarial value of plan assets	\$ 14,134
Unfunded actuarial accrued liability (UAAL)	\$ 7,268
Funded ratio (actuarial value of plan assets/AAL)	66.04%
Covered payroll (active plan members)	\$ 764,644
UAAL as a percentage of covered payroll	0.95%

NOTE 13—OTHER POST-EMPLOYMENT BENEFITS (OPEB) - HEALTH INSURANCE CREDIT: (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Retiree Health Insurance Credit benefit is based on a member's employer eligibility and his or her years of service. The monthly maximum credit amount cannot exceed the member's actual health insurance premium costs. The actuarial valuation for this plan assumes the maximum credit is payable for each eligible member. Since the benefit is a flat dollar amount multiplied by years of service and the maximum benefit is assumed, no assumption relating to healthcare cost trend rates is needed or applied.

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 plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2012 was 29 years.

NOTE 14—OTHER POST-EMPLOYMENT BENEFITS (OPEB):

A. Plan Description

The Town allows eligible retirees to remain on their health insurance plan(s) after they retire. Town employees must have attained age 50 with a minimum of 30 years of service or attained age 65 with 5 years of service. Law enforcement officers must have attained age 50 with a minimum of 25 years of service or attained age 65 with 5 years of service.

Health benefits include Medical, Dental and Vision. Retirees not eligible for Medicare are able to choose one of the following health plans through the Town:

Key Advantage Expanded (PPO)

Retirees eligible for Medicare are only permitted to choose the following supplemental health plan:

Advantage 65 Dental/Vision (Medicare)

Coverage is for retiree and eligible spouses/dependents. For retirees who are eligible for Medicare, spouses/dependents are not eligible. Benefits end at the earlier of the retiree's death or attainment of age 65.

B. Funding Policy

Retirees must pay 100% of their health insurance premiums. The Town currently has no retirees on its health insurance plan.

C. OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Town has elected to calculate the ARC as the normal cost plus amortization of the unfunded actuarial accrued liability in compliance with the parameter of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The estimated contributions are based on the projected medical premium payments and credit for the implicit rate made during the year for the retired employees by the Town. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and the resulting net OPEB liability:

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 14—OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

C. OPEB Cost and Net OPEB Obligation: (continued)

Normal Cost Component	
Normal Cost	\$ 25,442
Interest	1,781
Total Normal Cost	<u>\$ 27,223</u>
Amortization Component	
AAL	\$ 237,488
Less: Assets	-
UAAL	<u>\$ 237,488</u>
Divided by PV factor	17.1876
Amortization payment	\$ 13,818
Interest	967
Total Amortization Payment	<u>\$ 14,785</u>
Annual Required Contribution	<u><u>\$ 42,008</u></u>

NET OPEB LIABILITY:

Annual Required Contribution	\$ 42,008
Interest on net OPEB Obligation	9,968
Adjustment to ARC	<u>(8,284)</u>
Increase in net OPEB Liability	\$ 43,692
Net OPEB Obligation-beginning of year	<u>142,396</u>
Net OPEB Obligation-end of year	<u><u>\$ 186,088</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2013 and the previous two fiscal years are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 48,305	0%	\$ 93,184
6/30/2012	47,621	0%	142,396
6/30/2013	43,692	0%	186,088

NOTE 14—OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation, the Town's actuarial accrued liability for benefits was \$279,711, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$755,094, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37.04 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Cost Method

The entry age normal cost method is used to determine the Plan's funding liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the Plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year (or if benefits are not pay related, the level amount for each year). Under this method, inactive participants have no normal cost, and the actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The Plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts. An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. Data is net of any retiree contributions.

NOTE 14—OTHER POST-EMPLOYMENT BENEFITS (OPEB): (CONTINUED)

F. Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

TOWN OF KILMARNOCK, VIRGINIA

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

NOTE 14—OTHER POST-EMPLOYMENT BENEFITS (OPEB): (CONTINUED)

F. Methods and Assumptions (Continued)

Retirement age for active employees - Retirement age was estimated based on tables used for the VRS pension valuation and it was assumed that participants begin to retire when they become eligible to receive healthcare benefits.

Mortality - Life expectancies were based on the mortality tables provided by GASB *Postemployment Benefit Plans Other Than Pension Plans - Defined Benefit - Po50.136 Tables 1 and 2*.

Coverage Elections - It was assumed that for those employees currently on the Town's health insurance plan that they would continue it into retirement (if eligible).

Interest Assumptions -

Discount Rate	7.00%
Assumed Payroll Growth Rate	3.00%

NOTE 15—RESTATEMENT OF BEGINNING NET POSITION:

	Governmental Activities	Business-type Activities
Beginning net position, as previously reported	\$ 5,206,735	\$ 5,576,862
Removal of bond issuance costs in accordance with GASB 65	<u>(20,791)</u>	<u>(100,514)</u>
Beginning net position, as restated	<u>\$ 5,185,944</u>	<u>\$ 5,476,348</u>

Required Supplementary Information

Note to Required Supplementary Information:

Presented Budgets were prepared in accordance with Accounting Principles Generally Accepted in the United States of America.

Schedule of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual - General Fund
 Year Ended June 30, 2013

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
General property taxes	\$ 274,000	\$ 274,000	\$ 284,477	\$ 10,477
Other local taxes	1,465,000	1,465,000	1,489,069	24,069
Permits, privilege fees, and regulatory licenses	2,500	2,500	2,560	60
Fines and forfeitures	4,000	4,000	2,781	(1,219)
Revenue from the use of money and property	12,275	12,275	10,819	(1,456)
Miscellaneous	11,000	11,000	4,986	(6,014)
Intergovernmental revenues:				
Commonwealth	123,210	123,210	123,587	377
Total revenues	<u>\$ 1,891,985</u>	<u>\$ 1,891,985</u>	<u>\$ 1,918,279</u>	<u>\$ 26,294</u>
Expenditures:				
Current:				
General government administration	\$ 668,994	\$ 668,994	\$ 580,807	\$ 88,187
Public safety	372,615	372,615	328,797	43,818
Public works	210,150	210,150	185,927	24,223
Health and Welfare	-	-	1,160	(1,160)
Capital projects	484,636	484,636	79,539	405,097
Debt service:				
Principal retirement	119,154	119,154	119,154	-
Interest and other fiscal charges	36,436	36,436	36,436	-
Total expenditures	<u>\$ 1,891,985</u>	<u>\$ 1,891,985</u>	<u>\$ 1,331,820</u>	<u>\$ 560,165</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 586,459</u>	<u>\$ 586,459</u>
Other financing sources (uses)				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,664</u>	<u>\$ 19,664</u>
Fund balances at beginning of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,644,509</u>	<u>\$ 3,644,509</u>
Fund balances at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,250,632</u></u>	<u><u>\$ 4,250,632</u></u>

Schedules of Pension and OPEB Funding Progress
Last Three Fiscal Years

Virginia Retirement System:

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (3) - (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ 1,611,993	\$ 1,808,996	\$ 197,003	89.11%	\$ 764,644	25.76%
6/30/2011	1,505,306	1,685,917	180,611	89.29%	772,672	23.37%
6/30/2010	1,363,222	1,516,333	153,111	89.90%	721,942	21.21%

Other Post Employment Benefits (OPEB) - Virginia Retirement System (Health Insurance Credit):

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (3) - (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ 14,134	\$ 21,402	\$ 7,268	66.04%	\$ 764,644	0.95%
6/30/2011	12,869	20,110	7,241	63.99%	772,672	0.94%
6/30/2010	9,407	20,027	10,620	46.97%	721,942	1.47%

Other Post Employment Benefits:

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (3) - (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ -	\$ 279,711	\$ 279,711	0.00%	\$ 755,094	37.04%
6/30/2011	-	261,253	261,253	0.00%	729,020	35.84%
6/30/2010	-	237,934	237,934	0.00%	729,020	32.64%

Supporting Schedules

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 245,000	\$ 245,000	\$ 255,890	\$ 10,890
Real and personal public service corporation taxes	5,000	5,000	5,521	521
Personal property taxes	22,000	22,000	19,738	(2,262)
Penalties	1,500	1,500	2,865	1,365
Interest	500	500	463	(37)
Total general property taxes	<u>\$ 274,000</u>	<u>\$ 274,000</u>	<u>\$ 284,477</u>	<u>\$ 10,477</u>
Other local taxes:				
Local sales and use taxes	\$ 153,000	\$ 153,000	\$ 109,705	\$ (43,295)
Consumers' utility taxes	55,000	55,000	59,569	4,569
Business license taxes	230,000	230,000	244,786	14,786
Motor vehicle licenses	19,000	19,000	22,547	3,547
Bank stock taxes	245,000	245,000	270,751	25,751
Hotel and motel room taxes	105,000	105,000	106,100	1,100
Cigarette tax	118,000	118,000	134,919	16,919
Restaurant food taxes	540,000	540,000	540,692	692
Total other local taxes	<u>\$ 1,465,000</u>	<u>\$ 1,465,000</u>	<u>\$ 1,489,069</u>	<u>\$ 24,069</u>
Permits, privilege fees, and regulatory licenses:				
Cellular tower fees				
Permits and other licenses	\$ 2,500	\$ 2,500	\$ 2,560	\$ 60
Total permits, privilege fees, and regulatory licenses	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 2,560</u>	<u>\$ 60</u>
Fines and forfeitures:				
Fines and penalties	\$ 4,000	\$ 4,000	\$ 2,781	\$ (1,219)
Total fines and forfeitures	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ 2,781</u>	<u>\$ (1,219)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 7,000	\$ 7,000	\$ 5,419	\$ (1,581)
Revenue from use of property	5,275	5,275	5,400	125
Total revenue from use of money and property	<u>\$ 12,275</u>	<u>\$ 12,275</u>	<u>\$ 10,819</u>	<u>\$ (1,456)</u>

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (continued)				
Miscellaneous revenue:				
Miscellaneous other	\$ 11,000	\$ 11,000	\$ 4,986	\$ (6,014)
Total miscellaneous revenue	\$ 11,000	\$ 11,000	\$ 4,986	\$ (6,014)
 Total revenue from local sources	 \$ 1,768,775	 \$ 1,768,775	 \$ 1,794,692	 \$ 25,917
 Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle rental tax	\$ 500	\$ 500	\$ 262	\$ (238)
Telecommunications sales tax	75,000	75,000	77,983	2,983
Personal property tax relief funds	8,250	8,250	8,338	88
Total noncategorical aid	\$ 83,750	\$ 83,750	\$ 86,583	\$ 2,833
Categorical aid:				
Law enforcement grant	\$ 30,000	\$ 30,000	\$ 29,004	\$ (996)
State fire funds	8,000	8,000	8,000	-
Justice assistance grant	1,460	1,460	-	(1,460)
Total other categorical aid	\$ 39,460	\$ 39,460	\$ 37,004	\$ (2,456)
 Total categorical aid	 \$ 39,460	 \$ 39,460	 \$ 37,004	 \$ (2,456)
 Total revenue from the Commonwealth	 \$ 123,210	 \$ 123,210	 \$ 123,587	 \$ 377
 Total General Fund	 \$ 1,891,985	 \$ 1,891,985	 \$ 1,918,279	 \$ 26,294

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Capital Projects Fund:				
Intergovernmental revenues:				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ <u>213,351</u>	\$ <u>213,351</u>	\$ <u>175,837</u>	\$ <u>(37,514)</u>
Total Capital Projects Fund	\$ <u><u>213,351</u></u>	\$ <u><u>213,351</u></u>	\$ <u><u>175,837</u></u>	\$ <u><u>(37,514)</u></u>
 Total All Governmental Funds	 \$ <u><u>2,105,336</u></u>	 \$ <u><u>2,105,336</u></u>	 \$ <u><u>2,094,116</u></u>	 \$ <u><u>(11,220)</u></u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2013

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Council services	\$ 16,000	\$ 16,000	\$ 5,500	\$ 10,500
General and financial administration:				
Advertising	\$ 4,000	\$ 4,000	\$ 2,123	\$ 1,877
Audit and accounting	32,360	32,360	28,135	4,225
Capital outlay	18,500	18,500	10,158	8,342
Donations	11,000	11,000	1,000	10,000
Professional development	6,500	6,500	3,110	3,390
Grant expenses	8,000	8,000	8,000	-
Information technology	24,500	24,500	24,485	15
Insurance	4,400	4,400	1,338	3,062
Legal services	36,000	36,000	10,143	25,857
Materials and supplies	17,000	17,000	16,895	105
Miscellaneous administrative	57,300	57,300	51,208	6,092
Personnel	403,714	403,714	393,714	10,000
Repairs and maintenance	7,500	7,500	7,477	23
Utilities	12,600	12,600	11,181	1,419
Other charges	9,620	9,620	6,340	3,280
Total general and financial administration	\$ 652,994	\$ 652,994	\$ 575,307	\$ 77,687
Total general government administration	\$ 668,994	\$ 668,994	\$ 580,807	\$ 88,187
Public safety:				
Law enforcement and traffic control:				
Auto expense	\$ 21,200	\$ 21,200	\$ 21,141	\$ 59
Capital outlay	3,487	3,487	806	2,681
Emergency management	1,000	1,000	-	1,000
Insurance	21,000	21,000	15,800	5,200
Materials, supplies, and maintenance	14,150	14,150	9,726	4,424
Miscellaneous public safety	2,800	2,800	1,815	985
Personnel	308,978	308,978	279,509	29,469
Total law enforcement and traffic control	\$ 372,615	\$ 372,615	\$ 328,797	\$ 43,818
Total public safety	\$ 372,615	\$ 372,615	\$ 328,797	\$ 43,818

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

Fund, Function, Activity and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Capital outlay	\$ 25,600	\$ 25,600	\$ 21,978	\$ 3,622
Materials and supplies	24,300	24,300	13,766	10,534
Personnel	77,475	77,475	75,697	1,778
Repairs and maintenance	5,000	5,000	1,470	3,530
Utilities	57,725	57,725	57,545	180
Street and snow cleaning	4,250	4,250	688	3,562
Street lights	5,500	5,500	5,174	326
Trolley operations	10,300	10,300	9,609	691
Total maintenance of highways, streets, bridges & sidewalks	\$ 210,150	\$ 210,150	\$ 185,927	\$ 24,223
Total public works	\$ 210,150	\$ 210,150	\$ 185,927	\$ 24,223
Health and welfare:				
Health and Welfare:				
Property tax relief for the elderly and handicapped	\$ -	\$ -	\$ 1,160	\$ (1,160)
Total health and welfare	\$ -	\$ -	\$ 1,160	\$ (1,160)
Capital projects:				
General capital expenditures	\$ 484,636	\$ 484,636	\$ 79,539	\$ 405,097
Total capital projects	\$ 484,636	\$ 484,636	\$ 79,539	\$ 405,097
Debt service:				
Principal retirement	\$ 119,154	\$ 119,154	\$ 119,154	\$ -
Interest and other fiscal charges	36,436	36,436	36,436	-
Total debt service	\$ 155,590	\$ 155,590	\$ 155,590	\$ -
Total General Fund	\$ 1,891,985	\$ 1,891,985	\$ 1,331,820	\$ 560,165
Capital Projects Fund:				
County Capital Improvements Fund:				
Capital projects and capital outlays:				
Community development	\$ 213,351	\$ 213,351	\$ 156,173	\$ 57,178
Total capital projects and capital outlays	\$ 213,351	\$ 213,351	\$ 156,173	\$ 57,178
Total Capital Projects Fund	\$ 213,351	\$ 213,351	\$ 156,173	\$ 57,178
Total Primary Government	\$ 2,105,336	\$ 2,105,336	\$ 1,487,993	\$ 617,343

Other Statistical Information

TOWN OF KILMARNOCK, VIRGINIA

Table 1

Government-wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General			Interest					Total	
	Governmental Administration	Public Safety	Public Works	Health and Welfare	Community Development	Capital Projects	on Long-term Debt	Sewer		Water
2013	\$ 651,362	\$ 379,100	\$ 211,043	\$ 1,233	\$ 166,088	\$ -	\$ 34,942	\$ 872,882	\$ 424,522	\$ 2,741,172
2012	655,137	384,434	161,003	1,214	127,329	-	38,608	966,322	418,928	2,752,975
2011	691,835	346,718	157,577	620	-	-	47,840	1,005,066	410,265	2,659,921
2010	620,169	371,010	152,205	680	-	-	53,519	1,011,754	368,467	2,577,804
2009	663,497	362,354	179,507	-	-	-	57,174	987,699	367,570	2,617,801
2008	541,374	339,475	119,422	-	53,714	-	60,706	948,164	328,974	2,391,829
2007	483,404	286,984	121,857	-	760,338	-	64,117	910,817	333,531	2,961,048
2006	365,021	246,534	112,291	-	2,932,171	-	78,196	967,244	380,862	5,082,319
2005	343,005	223,466	59,738	-	170,826	-	-	873,029	286,215	1,956,279
2004	269,828	209,375	58,412	-	114,151	-	-	904,000	259,530	1,815,296

Government-wide Revenues
Last Ten Fiscal Years

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Commonwealth of Virginia Non-Categorical Aid	Revenues from Use of Money and Property	Gain on Sale of Capital Asset	Miscellaneous	
2013	\$ 1,049,455	\$ 37,004	\$ 175,837	\$ 1,774,482	\$ 86,583	\$ 14,033	\$ 1,397	\$ 8,124	\$ 3,146,915
2012	1,114,643	37,004	615,075	1,792,635	86,946	14,104	-	6,237	3,666,644
2011	1,347,495	41,449	521,861	1,797,682	88,205	20,641	-	170,311	3,987,644
2010	1,355,658	53,169	364,861	1,789,157	88,654	29,532	53,849	14,535	3,749,415
2009	1,141,118	43,797	567,000	1,882,465	20,355	38,028	-	9,801	3,702,564
2008	1,356,139	51,829	-	1,854,439	18,265	94,765	-	555	3,375,992
2007	1,505,223	67,071	493,000	1,607,145	27,847	112,892	119,598	189	3,932,965
2006	1,118,270	40,976	1,470,268	1,457,521	9,203	168,535	371,793	64,726	4,701,292
2005	1,179,057	63,688	171,140	1,005,285	-	44,568	148,510	942	2,613,190
2004	952,575	41,526	40,157	936,512	-	21,885	105,022	3,946	2,101,623

TOWN OF KILMARNOCK, VIRGINIA

Table 3

General Government Expenditures by Function [1]
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Government Administration			Public Works	Non- departmental	Health and Welfare	Community Development	Debt		Total
	\$	Public Safety						Service		
2013	\$ 580,807	\$ 328,797	\$ 185,927	\$ -	\$ -	1,160	\$ 235,712	\$ 155,590	\$ 1,487,993	
2012	580,202	321,543	167,460	-	-	1,110	227,465	155,612	1,453,392	
2011	652,899	337,185	161,970	-	-	620	262,688	186,413	1,601,775	
2010	587,319	338,675	146,490	-	-	680	431,243	157,573	1,661,980	
2009	668,152	360,670	308,604	-	-	-	20,330	157,676	1,515,432	
2008	544,680	354,414	513,220	-	-	-	53,714	157,654	1,623,682	
2007	509,830	265,891	103,368	-	-	-	760,338	158,020	1,797,447	
2006	363,693	255,118	99,685	-	-	-	2,932,171	50,896	3,701,563	
2005	325,858	222,166	47,841	-	-	-	279,974	-	875,839	
2004	272,714	222,643	46,515	-	-	-	114,151	-	656,023	

[1] Includes all Governmental Fund types.

TOWN OF KILMARNOCK, VIRGINIA

Table 4

General Government Revenue by Source
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Licenses Permits, and Privilege Fees	Fines and Penalties	Sales of Land, Property and Equipment	Use of Money and Property	Miscel- laneous	Insurance Dividends	Inter- Govern- mental	Total
2013	\$ 284,477	\$ 1,489,069	\$ 2,560	\$ 2,781	\$ -	\$ 10,819	\$ 4,986	\$ -	\$ 299,424	\$ 2,094,116
2012	288,679	1,511,385	3,235	4,887	-	14,104	6,237	-	210,505	2,039,032
2011	276,796	1,520,645	3,445	4,459	-	20,641	170,311	-	647,515	2,643,812
2010	283,649	1,506,150	3,775	3,958	-	29,532	14,535	-	359,693	2,201,292
2009	267,929	1,606,096	3,150	6,372	-	38,028	9,801	-	631,152	2,562,528
2008	217,357	1,634,090	3,560	12,982	-	94,765	555	-	70,094	2,033,403
2007	212,829	1,393,224	4,490	9,141	120,600	112,892	189	-	567,125	2,420,490
2006	213,376	1,248,548	4,420	4,759	375,200	107,194	57,873	-	1,486,108	3,497,478
2005	209,168	790,800	199,024	7,570	154,800	18,518	143	49	234,828	1,614,900
2004	180,518	751,510	189,002	7,138	107,000	7,140	59	1,061	64,421	1,307,849

TOWN OF KILMARNOCK, VIRGINIA

Table 5

Real Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Total Tax Levy [1]	Current Tax Collections [2]	Percent of Levy Collected	Delinquent Tax Collections [2]	Total Tax Collections	Percent of Total Tax Collections To Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2013	\$ 257,404	\$ 245,605	95.42%	\$ 10,285	\$ 255,890	99.41%	\$ 9,611	3.73%
2012	253,017	251,593	99.44%	5,798	257,391	101.73%	3,741	1.48%
2011	252,120	245,081	97.21%	3,774	248,855	98.70%	8,172	3.24%
2010	248,454	244,717	98.50%	7,539	252,256	101.53%	5,636	2.27%
2009	245,158	236,466	96.45%	1,379	237,845	97.02%	9,561	3.90%
2008	195,634	193,554	98.94%	1,431	194,985	99.67%	3,309	1.69%
2007	189,694	188,025	99.12%	818	188,843	99.55%	67	0.04%
2006	181,676	185,443	102.07%	1,229	186,672	102.75%	884	0.49%
2005	177,455	176,034	99.20%	1,128	177,162	99.83%	365	0.21%
2004	153,623	149,998	97.64%	1,624	151,622	98.70%	-	0.00%

[1] Figures may not include all abatements or supplements.

[2] Penalties and interest not included.

TOWN OF KILMARNOCK, VIRGINIA

Table 6

Personal Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Total Tax Levy [1][2]	Current Tax Collections [3]	Percent of Levy Collected	Delinquent Tax Collections [3]	Total Tax Collections	Percent of Total Tax Collections To Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2013	\$ 24,521	\$ 27,634	112.70%	\$ 447	\$ 28,081	114.52%	\$ 1,091	4.45%
2012	26,354	28,979	109.96%	393	29,372	111.45%	5,685	21.57%
2011	26,951	28,781	106.79%	188	28,969	107.49%	3,777	14.01%
2010	28,619	30,527	106.67%	26	30,553	106.76%	3,207	11.21%
2009	31,343	32,268	102.95%	32	32,300	103.05%	2,882	9.20%
2008	24,149	25,908	107.28%	294	26,202	108.50%	1,171	4.85%
2007	25,439	25,505	100.26%	1,124	26,629	104.68%	620	2.44%
2006	24,853	21,515	86.57%	185	21,700	87.31%	1,063	4.28%
2005	22,608	22,953	101.53%	1,903	24,856	109.94%	2,013	8.90%
2004	22,902	22,296	97.35%	146	22,442	97.99%	612	2.67%

[1] Figures may not include all abatements or supplements.

[2] The total tax levy includes the Commonwealth's reimbursement.

[3] Penalties and interest not included.

TOWN OF KILMARNOCK, VIRGINIA

Table 7

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate		Personal Property	Machinery and Tools	Mobile Homes	Total
		Including Public Service				
2013	\$	262,924,741	\$ 15,194,217	\$ 699,100	\$ 205,600	\$ 279,023,658
2012		259,559,444	16,335,206	144,500	205,600	276,244,750
2011		255,736,310	16,509,060	193,000	149,800	272,588,170
2010		251,828,698	17,499,464	242,400	186,300	269,756,862
2009		252,510,898	17,494,464	242,400	186,300	270,434,062
2008		248,326,507	18,968,855	303,100	167,914	267,766,376
2007		141,859,246	14,545,265	337,100	6,200	154,031,207
2006		138,143,077	15,696,730	184,000	7,400	147,747,472
2005		132,213,557	15,332,415	194,100	7,400	147,747,472
2004		130,739,445	13,900,390	246,600	7,400	144,893,835

Note: Property owned by the Town, other governments, churches and schools is exempt and no estimate of value is included.

TOWN OF KILMARNOCK, VIRGINIA

Table 8

Property Tax Rates
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2013	\$.10/\$100	\$.16/\$100	\$.16/\$100	\$.10/\$100
2012	\$.10/\$100	\$.16/\$100	\$.16/\$100	\$.10/\$100
2011	\$.10/\$100	\$.16/\$100	\$.16/\$100	\$.10/\$100
2010	\$.10/\$100	\$.16/\$100	\$.16/\$100	\$.10/\$100
2009	\$.10/\$100	\$.16/\$100	\$.16/\$100	\$.10/\$100
2008	\$.14/\$100	\$.16/\$100	\$.16/\$100	\$.14/\$100
2007	\$.14/\$100	\$.16/\$100	\$.16/\$100	\$.14/\$100
2006	\$.14/\$100	\$.16/\$100	\$.16/\$100	\$.14/\$100
2005	\$.14/\$100	\$.16/\$100	\$.16/\$100	\$.14/\$100
2004	\$.14/\$100	\$.16/\$100	\$.16/\$100	\$.14/\$100

TOWN OF KILMARNOCK, VIRGINIA

Table 9

Principal Taxpayers - Real Estate
June 30, 2013

Taxpayer	2013 Assessed Valuation Real Property	% of Total
Wal-Mart	\$ 10,244,200	4.58%
Bank of Lancaster	5,789,500	2.59%
Kilmarnock MCAP	5,311,500	2.39%
Virginia Electric & Power	4,063,435	1.82%
Reserve at Lake Chase, LLC	3,086,800	1.38%
Chesapeake Financial Shares	3,061,200	1.37%
HiExpectations	2,870,800	1.28%
Chesapeake Bank	2,859,800	1.27%
Kilmarnock Partners	2,587,700	1.16%
Virginia Health Services	2,580,800	1.15%
Total	\$ 42,455,735	18.99%

Note: This table sets forth the largest private property and public utility taxpayers of ad valorem real property taxes and the assessed value of property owned by each taxpayer. The aggregate assessed value of the ten largest taxpayers represents 18.99% of the total \$223,545,703 assessed value of real property in the Town. The total assessed value of real property in the Town which is located in Lancaster County is \$218,911,704 and the total assessed value of real property in the Town which is located in Northumberland Co. is \$4,633,999.

TOWN OF KILMARNOCK, VIRGINIA

Table 10

Principal Taxpayers - Personal Property
June 30, 2013

Taxpayer	2013 Assessed Valuation	
	Personal Property	% of Total
Wal-Mart	\$ 848,900	5.28%
Franklin Mechanical	669,700	4.16%
Food Lion	451,600	2.80%
HiExpectations, LLC	417,400	2.59%
Manufacturing Techniques, Inc.	336,000	2.09%
Virginia Health Services	302,700	1.88%
GEO Products, LLC	296,350	1.84%
Shedd Properties, LLC	290,000	1.80%
Walgreen Co.	269,400	1.68%
WW Inc, T/A McDonalds #10170	243,500	1.51%
Total	\$ 4,125,550	25.63%

Note: This table sets forth the largest private property and public utility taxpayers of ad valorem personal property taxes and the assessed value of property owned by each taxpayer. The aggregate assessed value of the ten largest taxpayers represents 25.63% of the total \$16,092,663 assessed value of personal property in the Town. The total assessed value of personal property in the Town which is located in Lancaster County is \$16,006,468 and the total assessed value of real property in the Town which is located in Northumberland Co. is \$86,195.

TOWN OF KILMARNOCK, VIRGINIA

Table 11

Legal Debt Margin June 30, 2013	
<hr/>	
Total assessed value of taxed real property	\$ 262,924,741
Debt limit - 10% of total assessed value	\$ 26,292,474
Less: Amount of debt applicable to debt limit - gross debt	4,732,808
Legal debt margin	<u>\$ 21,559,666</u>

TOWN OF KILMARNOCK, VIRGINIA

Table 12

Miscellaneous Statistics
Last Ten Fiscal Years

Fiscal Year	Registered Voters [1]		
	Active	Inactive	Total
2013	867	74	941
2012	834	89	923
2011	877	33	910
2010	872	33	905
2009	884	32	916
2008	919	14	800
2007	782	18	851
2006	814	37	850
2005	825	25	852
2004	800	52	810

[1] Provided by the Voter Registrar, Lancaster County

Compliance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Kilmarnock, 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 Kilmarnock, Virginia's basic financial statements, and have issued our report thereon dated December 17, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
December 17, 2013